THE SOLOMON PRINCIPLE REPORT

Dedicated To Helping You Produce, Protect and Pass on Wealth!

Real Estate, Mortgage Financing, Money, Debt, Taxes and Stewardship

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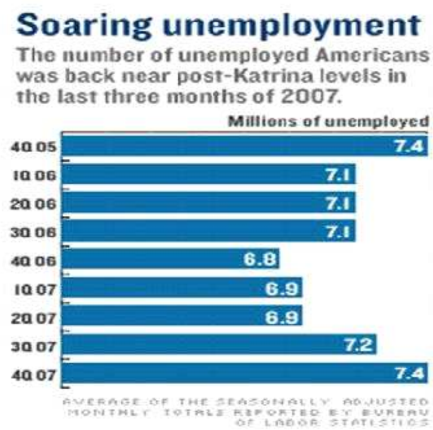
What Took So Long?

For well over a year we have been putting out the scenario that the slowdown in the real estate markets would spill over to the economy as a whole. This in turn would cause rates to go down. Month-after-month we reported on an economy that was surprisingly strong. If the real estate industry is such a large part of our economy, how could the slowdown not affect the total economy?



The answer lies with the problem. We got in this mess because American consumers leveraged to the hilt. They bought more than they could afford in such a frenzy that caused housing prices to rise. And when they rose, the consumers bought even more. Even when real estate prices started falling and equity melted away, they still spent. Foreclosures skyrocketed but we still spent. Well, the Holiday Season came and went and it is obvious that the retail reports and reports from the Federal Reserve Board's "Beige Book" are showing that consumers are finally starting to slow down. We continue to have fiscal stimulus in the form of a war, but this should be offset shortly as state and local governments are forced to curtail spending as tax receipts on lower property values start to dwindle.

Cries are rising for the Fed to continue to lower rates aggressively and they may do so even before they meet at the end of January (which they did) if turmoil continues in the stock markets. Plans are forming to bolster the economy via government programs from tax stimulus to housing aid. For now, we can feel the benefits of lower rates. Refinances are soaring and even oil prices have ticked down. ARM adjustments should be less burdensome with adjustments based upon indices that are falling. If the bad economic news continues, there may be good news in store for the real estate markets.

The MoneyChanger...For Those Into Gold & Silver

If you invest in gold or silver, you may want to check out Franklin Sanders. He has information on investing in gold and silver. Plus, he can be quite humorous. His Website is www.The-MoneyChanger.com...❑

Interest Rates Near A Four Year Low! Is It Time To Refinance?

I have more people asking me if they should refinance. Should they get out of their ARM and into a Fixed Rate Mortgage? Well, that all depends on several things. *Continued on Pg 2*

Interest Rates Near A Four Year Low! Is It Time To Refinance?

What are those several things?

1. How many more years do you plan on keeping the home?
2. Are the new lower rate and monthly savings a greater benefit than the cost of refinancing and starting over in a new 30 year mortgage?
3. If I have an ARM and it adjusted today, how would that compare to the current Fixed Rate Mortgage? Again, would I save enough for it to be beneficial long-term?
4. Do I want to use some equity to consolidate debt or invest?
5. Should I consider an Equity Accelerator program instead?
6. Is there a better way to tackle the mortgage elephant?

In the end, the best way to know for sure whether or not it makes sense to refinance is to have a Total Mortgage Analysis done. So call me to find out if you can do better by refinancing now. Be sure to have your existing loan information with you when you call.

Fed Chief: "*Juice* The Economy"

Federal Reserve Chairman Ben Bernanke told Congress that legislators should enact a fiscal stimulus package in order to help beleaguered consumers as recession fears grow. Bernanke testified at a hearing before the House Budget Committee. His comments come as more economists and politicians are expressing concerns about the state of the economy, which has begun to weaken due to the real estate slump. "To be useful, a fiscal stimulus package should be implemented quickly and structured so that its effects on aggregate spending are felt as much as possible within the next twelve months or so," Bernanke said in his prepared remarks. Former Treasury Secretary Larry Summers told lawmakers at a hearing of the Joint Economic Committee that Congress should immediately consider a stimulus package of $50 to $75 billion through a combination of tax cuts and increased spending on unemployment benefits and other programs.

Bernanke cautioned though that any stimulus "should be explicitly temporary" in order "to avoid unwanted stimulus beyond the near-term horizon and, importantly, to preclude an increase in the federal government's structural budget deficit."

Quick Bites

One bright spot: 30-year fixed-rate mortgages. At 5.6% on average, they're down from 6.3% a year ago...good news for borrowers who qualify for refinancing or are in the market to buy a home. Look for mortgage rates to remain below 6% through the year. *Source: Kiplingers*

Yale University economist Robert J. Shiller recently calculated the long-term trend in U.S. housing prices. His conclusion: Since 1890, housing prices have risen 0.4 percent per year after inflation. Had the calculations begun in 1960, the result would have risen to 0.8 percent per year, he says. Ending the calculations at 2000, before the housing bubble would have reduced the estimate of growth from 1960 through 2000 to 0.2 percent. Shiller concluded that despite the housing slump, home prices are still above their long-term trend. *Source: Business Week*

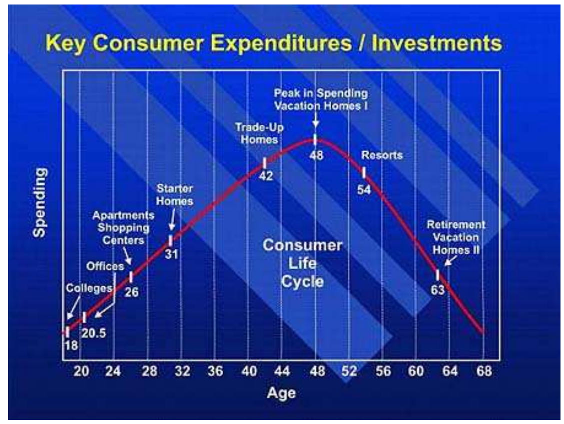
Bernanke kept the door open to further interest rate reductions, saying downside risks to economic growth remain from housing, employment and credit markets. The Fed chairman appeared before a Senate panel, alongside Paulson and Cox. *Source: Wall Street Journal*

Demographics and Real Estate

There is very little mention, if any at all, as to how demographics have affected the housing market. I am of the opinion that much of the housing boom that took place from 2000-2005 was driven by the need for the aging baby boomers to adjust their living.

Those younger baby boomers needed to move up and get more space because of their growing family and lifestyle. The middle-aged baby boomers became empty nesters and didn't need the space, so they downsized and sold their homes to the younger baby boomers and, in the process, some of the baby boomers purchased second homes. The older baby boomers, well they retired and moved to Florida.

One great way to predict trends is to look at demographics and in this country watching the baby boomers is one of the best ways to predict trends. It is apparent that those that needed to buy from 2000-2005 have done so. While interest rates are still very low and housing prices are coming down, the fact is, the majority of people don't need to buy right now and won't need to buy for another 10-20 years.



So does that mean that housing prices will stay flat for 10-20 years? Probably not. Many so-called experts believe that the nation, as a whole, is still in a downward price trend and will stay that way for another couple of years. The housing market needs to overcome all the foreclosures and have a consistent trend of less foreclosures per month for 6-12 months in a row for things to start leveling off. Low interest rates help, but that is not enough. The main thing the housing market needs is demand and there simply is limited demand for people to buy homes right now. Also consider, why would someone buy a home now and take the risk that in 1-3 years it could be worth 10-25% less than what they paid for?

So who is buying? First-Time home buyers. This is a good time for first-time home buyers provided they have stable income, good credit and plan on staying in the same home for at least 5 years.

And what will the baby boomers do next when it comes to housing? Resort-style retirement living could be the next big trend. And a return to second home purchases.

In the next issue we will look at migration and immigration and how it relates to the future of the housing market.

Refinances Surge...ARMs Down

Lower rates prompted more Americans to refinance in January as mortgage application volume skyrocketed after the slow Holiday Season. According to the Mortgage Bankers Association's weekly application surveys, refinance volume rose 43.4 percent, while purchase volume jumped 11.4 percent. Refinance volume accounted for over 60 percent of total application volume.

Meanwhile, Freddie Mac data from their annual adjustable rate mortgage survey showed that demand for adjustable loans fell to their lowest levels in several years. ***Continued on Page 8***

103% Interest Rate....What!?

What would you do if you invested $1,200 per month for 5 years (or $72,000) with your bank or financial advisor and after those five years you had less than $14,000?

Do you know what rate of return that is? <u>NEGATIVE 28% or so!</u>

Would you borrow $14,000 for a period of five years and be willing to pay it back at an interest rate of 103%?

Well, if you have a traditional mortgage, then that is what you are doing when you don’t pay off your loan in full over the course of the term.

GOOD NEWS...It is possible to effectively lower the rate on the money you have borrowed simply by accelerating the payback of the mortgage. By pre-paying your mortgage routinely at precisely the right time with precisely the right amount of money you will effectively lower the rate on the cost of funds that you have borrowed. Without a doubt, the best way that I have seen to do this is with an Equity Accelerator Program (not to confused with a bi-weekly payment).

On average you can pay off a 30 year mortgage in as little as 1/3 to 1/2 the time. Save thousands in interest. Have little or no change to your current standard of living. Without refinancing your home.

Call me if you would like me to run an analysis for you. And by the way! Not only is this a great way to pay off your mortgage debt it can help you eliminate all of your consumer debt much faster as well.

What The Good Book Says About Money

Solomon, you know, the guy who wrote the book of Proverbs in the Bible. He is considered to be the wisest and one of the wealthiest men to have ever lived. Knowing this, I’ve been studying the words and life of Solomon to see how he became so wealthy. I call this The Solomon Principle™.

So far I have come up with about 12 Principles that Solomon either had or did. The first principle that stands out is most certainly the foundation to all the others. That principle is, the Principle of Wisdom. Shortly after Solomon became king he asked God to give him an understanding heart so that he could discern good and evil. Because Solomon did not ask for riches or long life, God not only granted him wisdom, but he also granted him the things he did not ask for. *1 Kings 3:9-12*

Hear what Solomon has to say about how important wisdom is: “How blessed is the man who finds wisdom. And the man who gains understanding. For her profit is better than the profit of silver. And her gain better than fine gold. She is more precious than jewels; And nothing you desire compares with her. Long life is in her right hand; In her left hand are riches and honor. Her ways are pleasant ways. And all her paths are peace. She is a tree of life to those who take hold of her, And happy are all who hold her fast.”
-Proverbs 3:13-18

So, before you buy into what someone’s rich dad said about money, consider obtaining wisdom on finances from Solomon.

For Laughs

The bank's problem: If you owe the bank $100, that's your problem. If you owe the bank $100 million, that's the bank's problem.

Owner to a house hunter: "Yes, the kitchen is a bit small, but with a mortgage like this you won't do much cooking anyway."

Increase Your Credit Score Now!

Recent changes in lending rules have made your credit score even more important to your long-term economic health. Subprime mortgage program alternatives are disappearing. Fannie Mae and Freddie Mac are now charging a higher rate for lower credit scores. Even FHA has proposed such a surcharge.

What does this mean? In general, America's credit scores are getting lower. We are borrowing more at higher rates and this is causing the situation to get worse. What does a low credit score cost the average American? Credit scores can range from a low of 300 to a high of 850. In general, a credit score above 700 is considered good. From 600 to 700 is considered marginal and now may be subject to higher rates. Below 600 is considered poor. If your score is significantly below 600, borrowing can be close to impossible depending upon other financial consideration such as cash reserves. This means that you may not be able to obtain the home of your dreams or may not be able to refinance your present home.

Let's say that you would have a rate of 6.0% if your credit was great. Let's also say that you would pay 7.0% because your credit is not good. What does that cost you? Not even considering other debts such as your credit cards, your higher mortgage payment will cost you plenty more. On a $300,000 mortgage, the higher cost over the term would be approximately $90,000. Add your other debts and even higher insurance costs and many will pay hundreds of thousands of extra dollars for a lower credit score. And those who have lower credit scores generally can ill afford higher payments as compared to the general population.

We are here to say that you can break this cycle. How? Credit score improvement is something that you can do in the short-run to save money instantaneously as well as the long-run so that you can save thousands over your lifetime. The key is getting on a long term plan as well as making short-term adjustments.

If you look at the inset box on this page, you can see the make-up of a credit score. What can you do in the short-run and the long-run to help increase your credit score?

More immediately, we can correct inaccuracies. Did you know that more than 30% of the average credit reports contain one or more items that are false? Without action these inaccuracies can cost thousands and the average consumer does not even know that these inaccuracies are on his/her credit report. Therefore, step one is to run a credit report and look for any inaccuracies. From there, a professional can help you remove any found in the report.

In addition to inaccuracies are those items which are true but not added to the report in a compliant manner. The Fair Credit Reporting Act includes such requirements for creditors. For example, the creditor must notify a consumer before it places a negative rating on a credit report. Getting these removed may seem unfair to the creditor if they are true, but this lack of notification does not give the consumer the chance to dispute or rectify the situation.

There are also long-term actions that can be taken. These may include paying off debts which reduces the amounts owed. You can also change the mix of credit from revolving to installment and even make sure that your balances are not too high of a percentage of the total credit limit. For example, a credit card with a $5,000 balance can reduce the score if the total credit limit is $5,000 versus $20,000.

Therefore, a good credit score improvement program usually must include a debt reduction program. Did you know that a debt reduction program can pay your debts off more quickly? The creditors would like you to continue paying forever on these debts as that is how they make their money. The new credit rules in America dictate that you have a short-term plan to increase your credit score as well as a long-term plan to keep it high. The savings? Thousands of dollars that will benefit you instead of the bank.

Credit Score Make-Up

...35% payment history

...30% amounts owed

...15% length of credit history

...10% new credit

...10% credit mix

Expect Tax Refund Delays

In late December 2007, Congress decided to freeze the expansion of the Alternative Minimum Tax (AMT), an outdated tax law from 1969. While this was great news for some 25 million tax payers, the late date of this congressional action will reportedly create major delays in the processing of tax returns and, more importantly, refund checks.

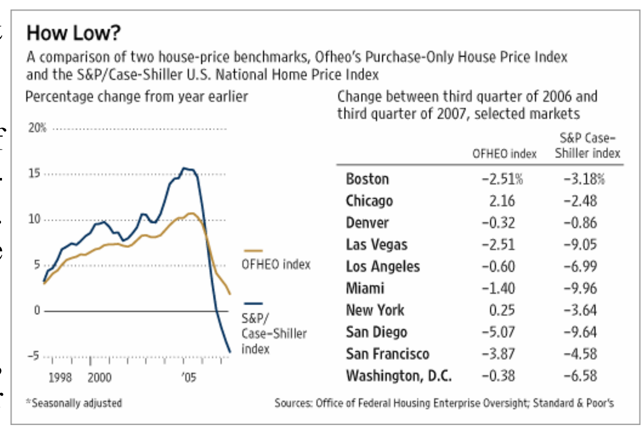
As you might expect, the IRS had already prepared its tax packages and computer programs to reflect the 2007 tax year by the time Congress made its decision. Because of this, the IRS has said that it cannot process certain AMT−related tax forms until February 11, 2008, which could result in an estimated 13.5 million refund delays. The forms are:

- 8863, Education Credits
- 5695, Residential Energy Credits
- 1040A's Schedule 2: Child & Dependent Care Expenses
- 8396, Mortgage Interest Credit
- 8859, District of Columbia First−Time Homebuyer Credit

If you need advice on how to proceed with your 2007 tax returns, give us a call. We'll make sure you get the assistance you need to reach all of your financial goals and needs.

Tracking Housing Prices...Why the Numbers Conflict

The two best measures of home prices are the Office of Federal Housing Enterprise Oversight's index and Standard & Poor's Case/Shiller index. But their findings can vary widely.



	OFHEO index	S&P Case-Shiller index
Boston	−2.51%	−3.18%
Chicago	2.16	−2.48
Denver	−0.32	−0.86
Las Vegas	−2.51	−9.05
Los Angeles	−0.60	−6.99
Miami	−1.40	−9.96
New York	0.25	−3.64
San Diego	−5.07	−9.64
San Francisco	−3.87	−4.58
Washington, D.C.	−0.38	−6.58

*Seasonally adjusted

Sources: Office of Federal Housing Enterprise Oversight; Standard & Poor's

Tracking home prices is harder than tracking the price of stocks, which are traded constantly in public view on exchanges. And it's harder than tracking the price of toothpaste. That just involves sampling posted prices on grocery-store shelves and Web sites.

But Charles Calomiris, a Columbia University economist, says, "Too much weight is being attached to the Case-Shiller index. ... Housing prices may not be falling as much as some economists say they are." *Source: RealEstateJournal.com*

At the OFHEO Website (http://www.ofheo.gov/) you can review state by state home values since 1975. Plus, you can use their calculator to determine what your home might currently be worth. Their next report is due out March 1st.

Who Do You Know?

If you know anyone who is looking to buy, sell or refinance a home, please forward their name and telephone number to us. We will happily provide the same high level of service that we have provided to you. The greatest compliment you could possibly give us is the referral of your friends and family.

You have been a great deal of help in getting my first home and helpful advice on getting the negative information off my credit report. I will continue to spread the word about Chris the mortgage analyst.—Dwayne C.

Loan Crisis Goes To College

Paying for college could get even tougher this year as smaller lenders tighten standards and raise rates. But big banks are holding the line.

When parents and students try to line up college funding this spring, they will likely be in for a nasty shock. They may still get a loan, but it will come at a price. Borrowers will have a more limited choice of lenders and find discounts for on-time payments or direct debit scarce. On top of that, they'll see higher rates and fees. *Source: CNNMoney.com*

This is why more parents should consider an Equity Accelerator Program. As I mentioned on page 4, it is possible to build a significant amount of equity in a relatively short period of time. This would allow you to withdraw that equity several years from now to help fund your child's college education. It is not likely that you could accrue the same amount of money in an investment or College Savings Plan within the same period of time and maintaining the same lifestyle as you can with an Equity Accelerator Program.

7 Ways To Fight Property Taxes

Assessments are expanding, but prices are contracting. Ready to hit back? Here's how.

1. Learn your system
2. Get your assessor's evidence
3. Make sure the description is right
4. Build your case
5. Meet the assessor informally
6. File the appeal
7. You lost?
8. Appeal

Source: CNNMoney.com

Is It Time to Take the Plunge And Get That Vacation Home?

As mentioned earlier, one of the long-term trends and opportunities should be vacation and resort homes. Our family purchased a vacation home at Wintergreen Resort in Virginia last year. And we love it there. Wintergreen is truly a four-season resort. Wintergreen offers skiing, year-round golf, tennis and swimming. It is rated the number 1 resort in the mid-Atlantic region.

We rent our home out to vacationers throughout the year. This helps cover much of the cost of ownership, while still allowing us plenty of time to enjoy the home.

One very popular trend to follow will be Fractional Mortgages. This is a great way to have the advantages of owning a vacation home, but at a fraction of the cost. Don't confuse this with a time-share. Fractional Mortgages cater to a more upscale client and they allow you to sell at any time and reap the benefits of appreciation, possibly tax savings and you are not limited to your one week per year.

If you go to Wintergreen, contact Peter Farley with Wintergreen Real Estate. Peter is the most knowledgeable Realtor at Wintergreen. He can be reached at 434-361-0567.

Here are some things to consider: Is it really practical? Will it be affordable? Consider your future plans. Choose a location. Do the research. Don't rush in. Is the property rentable?

Refinances Surge...ARMs Down

As of October 2007, ARMs comprised up to 17 percent of loan applications, their lowest level since June 2003, the government-sponsored loan buyer said.

Many of those previous ARMs had low introductory teaser rates that reset to payments that homeowners could no longer afford leading to foreclosures. Therefore, adjustables are currently priced less attractively on the secondary market, "A year ago, the initial-rate discount on the popular 3/1 and 5/1 hybrid products was about 1.8 percentage points. In our latest survey, the rate discount had virtually disappeared on these products," said Freddie's Chief Economist Frank Nothaft.

Have You Scheduled Your Mortgage Fitness Check Up?

In case you didn't know, one of the things that I offer my clients is an Annual Mortgage Fitness Check Up.
What does that entail you ask?
-Identity Theft Screening
-Credit Review
-Financial Review
-Mortgage Plan Review (Is your current mortgage helping you accomplish your financial goals?)

Call to schedule yours today

Death & Taxes...How About The Death of Taxes?

Exchanges of real estate for development rights are tax favored, the IRS says privately. The deal is a tax-deferred like-kind swap because the development rights are treated as an interest in real estate.
IRS has also approved exchanges involving land-use credits. That's because the credits are an interest in realty under state law.

Don't worry about losing the state sales tax deduction for 2008, even though President Bush's newest budget doesn't provide an extension of this break. Later this year, Congress will reinstate the deduction as part of a bill to revive various provisions that expired after 2007. Source: *Kiplingers*

Final Note...The Stimulus Plan

I don't think the stimulus plan will help homeowners, the housing market or the economy much. Most of the recent government intervention into helping homeowners is geared to a very small portion of the population. Those that live in high-cost areas could be helped by increased lending limits offered by Fannie Mae and Freddie Mac. Time will tell.

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