

The Select Report Newsletter

Fall Issue 2006

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Indices as of 9/22/06

1 Yr. LIBOR	5.401%
1 Yr. Treasury	5.020%
COFI	4.177%
MTA	4.884%
PRIME	8.25%

IS A 1% Mortgage Start Rate Too Good To Be True? Option ARMs—The Pros and Cons

By Kelly Lynch

Adjustable-rate mortgages known as “option ARMs” have become increasingly popular over the last several years. These mortgages can provide benefits if you use them right, but they can put you in financial peril if you do not understand how they work.

What is an Option ARM?

An adjustable-rate mortgage or “ARM” is a mortgage loan in which the lender may adjust the rate of interest according to some specific index at periodic intervals during the loan term. An “option” ARM gives borrowers multiple payment options—typically four—each month that range in size.

The Minimum Payment Option—The minimum payment option is the lowest of the four payments. It functions similar to a minimum credit card payment for the simple reason that with this payment the borrower pays neither the principal nor the entire amount of interest due on the loan. The interest that does not get paid gets added back into the interest due on the loan and this increases the actual loan balance. This is what is called negative amortization, or deferred interest.

The Interest Only Payment Option—Under the interest only payment option, borrowers avoid deferring interest but at the same time do not make a principal reduction payment. The interest only rate is based on index (typically LIBOR, 6 month CD, MAT-Maturing Treasury Average) plus margin (which typically ranges from 2.25% - 3.5%). This rate is referred to as the fully indexed rate and is actually the real rate of interest that is owed. This payment option is the second lowest payment type. As with most interest only payment loans, there is a clause in the mortgage note that will dictate how long you can make interest only payments before you must pay toward the principal.

(Continued on Page 2)

Making Waves and Breaking Records

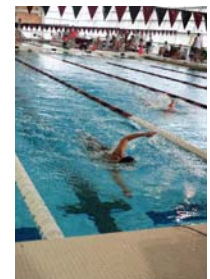
Amy Dantzer, KPL's Senior Vice President, has been spending a lot of her free time in the water lately.

Amy competed in Gay Games VII in Chicago this summer where she brought home seven medals. At 42, she won the 800 meter freestyle with the fastest time in the meet for women of all ages and shattered the former Gay Games record by more than 40 seconds. Amy was more excited, however, about placing second in the 1500 meter freestyle to the American master's record holder. Amy's time in that event (18:24.38) is the fifth fastest time in the world—of all time—for women ages 40-44.

More recently, Amy competed in the 76th Annual La Jolla Rough Water Swim this September. Amy successfully defended her title in the one-mile race for the third year in a row with the fastest women's time of the day (for women of all ages). Less than two hours later, Amy won the three-mile race for her age group and finished 42nd out of approximately 400 women and men.



KPL's Amy Dantzer (pictured right) competed at the Gay Games VII in Chicago and also competed in the 76th Annual



Option Arms Loans (continued from page 1)

The 30-year Amortized Payment Option—The 30-year amortized payment option is the more traditional mortgage payment that goes toward reducing both principal and interest and is the third lowest payment option. Consistently making this payment will pay off the loan in 30 years.

The 15-year Amortized Payment Option—Like the 30-year option, under the 15-year amortized payment option, the payment goes toward the reduction of both principal and interest. This is the largest payment option, however, because making this payment consistently will pay off the loan in only 15 years.

These loans often feature a low introductory or “teaser” rate that is used to set the minimum payment option during the first year. Many borrowers are attracted to these loans because of these low introductory rates, which have run as little as 0.50%. After the first year, the “teaser” payment rate will increase by 7.5% of the original monthly “teaser” payment, which is approximately a 1% increase in the original payment.

The Pros

The main benefit of the option ARM is its flexibility, allowing the borrower to make small payments when money is tight. These flexible loans are well-suited to homeowners who have irregular incomes, such as salespeople on commission. Sophisticated borrowers can make minimum payments and invest the remaining money. Also deferred interest can be paid at the end of the year or deferred to the following year and written off on tax returns.

The Cons

Option ARMs carry two primary perils. First, they allow people to invest a minimal amount of money in a property that is expected to grow in value and result in a great return on investment. This is good for sophisticated buyers and investors but all homebuyers should be careful not to base their home-buying decisions on unrealistic rates of home appreciation.

The other major risk of an option ARM comes from payment shock. It is very tempting to elect the minimum monthly payment each month and the majority of borrowers do so. But the money deferred under the minimum payment option (which includes both principal and interest) is added back to the principal amount and often times borrowers are surprised to find that, a year into the loan, they owe more than they originally borrowed. Those borrowers who consistently elect to make the minimum payment eventually will be required to make payments based upon a rising loan balance. Under certain conditions, the minimum monthly payment could more than double from one month to the next. Such an outcome is unlikely, but possible if someone makes only minimum payments for multiple years while rates rise.

The Bottom Line: Understand Your Mortgage

There are many different loan products available today to address the changing real estate market, rising interest rates and borrower needs. Whether you think an option ARM or some other loan product is right for you, be sure you understand all the product’s features. You don’t want to be one of those borrowers who is surprised when they are suddenly required to make a larger payment than they have budgeted for or to find out they owe significantly more than the original loan amount borrowed when they attempt to sell their property. **Your KPL loan specialist can answer any questions you have about option ARMs and will assist you in determining which loan product meets your needs. Call us today at 818-907-5757 or 760-327-9700.**

Tired Of Junk Mail and Unwanted Solicitations? Opt Out Now

You may not realize that the three national Credit Reporting Agencies compile “target lists” of consumers who have checked their credit or had their credit checked to obtain a mortgage. These target lists—containing your name and personal information—can be purchased by lenders within 24 hours of your credit check, opening you up to unwanted phone calls and junk mail.

However, you can protect yourself. Before your KPL loan officer checks your credit for your refinance or to pre-qualify you for the purchase of your new home, we suggest that you consider opting-out of these pre-screened target trigger lists. This simple action will stop much of the unsolicited junk mail you receive ranging from unrealistic mortgage loans to credit card offers.

To opt-out, simply call **1-800-5-OPT-OUT** (1-888-567-8688) or visit the opt-out website at www.optoutprescreen.com where you may opt-out of these target trigger lists for five years or even permanently. Be aware, however, that, if you do seek to opt out, you will be required to provide personal information including your name, home phone number and social security number. This process is confidential and the website is a safe encrypted site provided by the National Consumer Reporting Agencies as required by Federal law.

If you would like to learn more about your rights to opt-out of unwanted solicitations, you may obtain The Federal Trade Commission’s Prescreening Information Pamphlet at www.ftc.gov/bcp/online/pubs/credit/prescreen.pdf.

Are Your Utilities Costing You Extra?

Many of us are spending far more on our utility bills than we should. The good news is there are solutions available that are not only easy, but inexpensive as well.

Begin by gradually replacing all light bulbs with long-lasting energy savers. Next, replace all shower heads with low-flow versions. Make a concerted effort to turn off electrical appliances like lights, TVs, and computers—or even just the computer monitor—when not in use. The idea that it uses more energy to turn on an appliance is false.

Also, you may want to take a good look at your next telephone bill and analyze your calling trends. Then visit a website like www.saveonphone.com or www.phonedog.com and see if you can find a better long distance rate.

Lastly, most utility companies offer online audits explaining many of the money-saving options available. If your company doesn't, log on to <http://hes.lbl.gov> for a similar audit. Believe it or not, making the above changes can save you hundreds of dollars each year.

A Chat With A Lender Can Prevent Foreclosure

Lenders are concerned that borrowers of interest-only or adjustable-rate loans in California and other expensive real estate markets will encounter financial trouble when their interest rates adjust and their monthly payments float up. Experts believe that 50 percent of the nearly 280,000 home owners nationwide whose dwellings were lost to foreclosure in 2005 did not contact their lenders when it became clear that making their monthly payments would be difficult.

If you're facing a difficult financial situation, call your KPL loan officer to discuss how we can assist you. Lenders adopt a different attitude if they know the facts and know that the borrower is not trying to skip out. You may be able to refinance into a fixed-rate loan, work out a repayment plan for past-due amounts, restructure the interest rate or postpone payments for a specified period. Depending on the circumstances, sometimes a lender will even permit a homeowner to sell the home for less than the mortgage amount and forgive the balance.

Hot Topics In Palm Springs



In The Chino Cone Debate, It's Preservation vs. Development

Preservationists opposing the development, The Task Force for Mountain & Foothill Preservation & Planning, have been asking for limited growth and development of the Chino Cone area of Palm Springs.

As of Wednesday, Sept 13th the city council voted 4-1 to allow 3,150 homes to be built on and around Chino Cone. Currently, there are 9 areas of development within Chino Cone, comprised of both Indian and privately owned land.

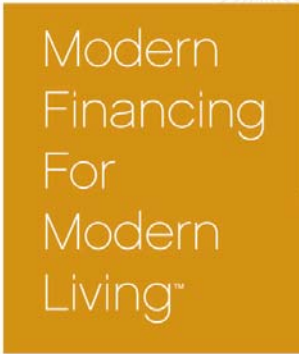
The center of the cone will allow 1.5 homes per acre in an area mainly composed of Indian land. Developers must follow strict guidelines pertaining to: height, color, density, signage and light restrictions.

The Planning Commission is still working on density transfer issues, giving "bonuses" to developers who create more open space by moving buildings from one area of the cone to another.

Height Restrictions in Downtown Palm Springs

Currently the Palm Springs General Plan allows buildings to be built with a sixty foot height limit in downtown Palm Springs. The Downtown Urban Design Guidelines, however, allow buildings of sixty feet in only three areas of downtown: the corner of Palm Canyon Drive and Alejo Road, the corner of Palm Canyon Drive and Ramon Road and The Desert Fashion Plaza. On the east side of Palm Canyon Drive only forty-five feet is allowed, while the limit is thirty feet on the west side of Palm Canyon Drive.

Opponents in the recent debate regarding the height of new buildings to be constructed in downtown Palm Springs, Roxann Ploss and Frank Tysen from the Downtown Height Limit Act, seek to limit all building heights to thirty feet (with five feet for architectural features). This would cause a "freeze" on development according to Palm Springs City Councilman Steve Pougnet. Pougnet and fellow council member Mike McCulloch believe the current guidelines are a key factor in revitalizing the downtown area. This issue continues to be a hot one in the desert. We will keep you informed of further developments.



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Preparing For Tax Time Throughout The Year

Taxes are unpleasant, so many people wait until the last minute to prepare for tax season. For anyone who itemizes their deductions, this practice may be costing you money. Here's a short list of commonly overlooked deductions you may be eligible to claim:

- Medical expenses in excess of 7.5% of your adjusted gross income
- Job search expenses
- Certain moving expenses
- Investment expenses (Fees for investment advice, a safety deposit box, etc.)
- Tax preparation fees and related materials
- Uninsured losses due to casualty or theft
- Charitable donations

For a complete list, log on to www.irs.gov and conduct a search for "Tax Topic 500". Speak with your accounting professional to determine which deductions actually apply to you.

Also, try your best to practice due diligence year-round. File receipts, with details noted, soon after purchases are made. Log events as they occur. This may seem like rather obvious advice. The real question is, are you doing it?

Learn More About How To Foil Credit Card Theives

A quick trip to an evaluation site like www.bizrate.com or the Better Business Bureau online at www.bbb.org could save you money. Also make sure you have multiple ways to contact the merchant, including a phone number, fax number, street address (not just a post office box) and e-mail address.

Also, check out www.idtheftcenter.org for more tools and advice about how to avoid identity theft and how to tackle persistent credit card fraud problems.