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David Maplesden

January 2005

REAL ESTATE Update

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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Rates Remain Affordable

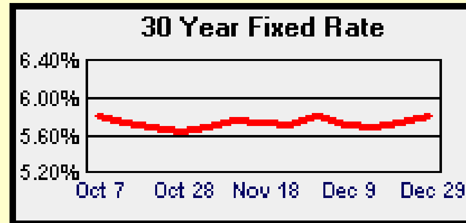
Mortgage interest rates are ending the year just about where they were when 2004 began -- hovering below the very affordable 6 percent mark.

Freddie Mac's Weekly Mortgage Market Survey put the average fixed interest rate for 30-year conforming loans at 5.87 percent on Jan. 8, 2004, in the year's first weekly survey. On Dec. 30, rates were at 5.81 percent. Still, rates finished 2004 well off the 6.75 rate originally forecast.

Slower economic growth in 2005 should hold average mortgage rates to 6.5 percent or lower throughout 2005, according to the Mortgage Bankers Association forecast.

Mortgage Rates

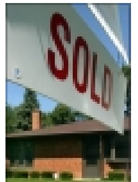
Source: Realty Times



U.S. averages as of December 29, 2004:

30 yr. fixed:	**5.81%**
15 yr. fixed:	**5.23%**
1 yr. adj:	**4.19%**

2004-2005 Home Sales Remain Bullish



The National Association of Realtors revised upward its year-end forecast for home sales and the trade group projects the healthy housing market will stay alive and well in 2005.

By the end of 2004, existing-home sales should be up 7.9 percent to 6.58 million, easily surpassing 2003's record. In 2005, the National Association of Realtors projects 6.38 million sales, the second highest level in history. The median price on existing homes will rise 7.9 percent to $182,500 in 2004 and another 5 percent in 2005.

New-home sales are expected to rise 8.9 percent to a record 1.18 million in 2004, but only 1.13 million in 2005. New-home prices should be up 8.9 percent to $214,600 in 2004 and another 5.8 percent in 2005.

"We're setting our fourth consecutive record year for existing-home sales, and even with strong fundamentals such as household growth, low interest rates and an improving economy, we simply can't set records every year," said David Lereah, the National Association of Realtors' chief economist.

"Given the sharp rise over last year's record, a lot of buyers have found the home they've been looking for and we can expect a bit of a breather in 2005, which will remain a historically strong year," as builders work to ease the backup in housing demand, he added.

Efficient Homes Offset Energy Costs

Freddie Mac analyzed data from the American Housing Survey (AHS) and found that fuel cost as a percentage of home value was about 0.8 percent between 2000 and 2003, versus about 1.8 percent before 1960 and an average of 1.3 percent in the oil crisis decade of the 1970s. While some of the cost difference can be attributed to home value appreciation, Freddie Mac says much of it is due to recently built homes that are about twice as energy efficient as homes built in the 1960s. Crude oil pulled back from a peak of $55.23 per barrel in October, but remains far off the $30 a barrel mark of a year ago.

Laundry Rooms a Hot Amenity for Homebuyers

Laundry rooms top buyers' list of most desired extra rooms, regardless of the property size or the buyer's income, according to a survey by the National Association of Home Builders.

Laundry rooms are no longer relegated to the basement, and many buyers are requesting more than one. They are now multi-purpose spaces, where homeowners store cleaning and pet supplies, surf the Web, and do crafts.

Builders of single-family homes priced under $200,000 have made deluxe laundry rooms a standard feature, and many are including them in multi-family structures as well.

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Housing Is The New Economy

By Broderick Perkins

Outpacing the flaccid, once technology-driven stock sector as an investment tool, the more potent housing market has hammered home its position as a cornerstone of the economy's foundation -- and it appears to have much more staying power.

Consumer spending is the real petrol that powers the economic engine and housing wealth is proving to be a stouter grade of fuel than stock market investments. Housing and all its related transactions -- purchasing, furnishing, maintaining, improving and investments -- accounted for 23.1 percent of Gross Domestic Product in 2003 and over the past 50 years that figure has been as high as 25 percent.

Consumers spend about five-and-a-half cents out of every dollar increase in both housing wealth and stock wealth. Spending from housing wealth, however, takes only a year or so to reach 80 percent of its long-run wealth effect, compared with nearly five years for the same effect from stock market investments," according to "Housing Wealth Effects," produced by the Joint Center for Housing Studies at Harvard University and Macroeconomic Advisers, LCC.

"In other words, housing produces a quicker lift to the economy while home-price growth provides lasting benefits," said David Lereah, the National Association of Realtor's chief economist.

"Homeowners are more confident of gains in housing wealth, so they spend more readily and quickly when they occur," he added. NAR's National Center for Real Estate Research commissioned the study.

For years, many homeowners have known the feeling of owning, something once called the "psychological equivalent of gold," and the new Harvard study helps second that emotion. The new study also says:

- About six in 10 homeowners have more home equity than stock wealth. The percentage is higher among lower income households, according to another study.
- Housing wealth accounts for 36 percent of the nation's tangible assets.
- Late last year, the home ownership rate was 68 percent, but only 52 percent of households held stock.
- In 2001, the Federal Reserve Board's Survey of Consumer Finances showed that the top 1 percent of stockholders controlled 33.5 percent of stock, while the top 1 percent of homeowners controlled 13 percent of home equity.

A less scientific study by EscapeHomes.com revealed earlier this year that homes in select second home markets were appreciating even faster -- by as much as twice as fast as the rest of the housing market. Strong anecdotal evidence also points to a growing trend of investors who traded in stock market investments for residential real estate -- both those who won and lost during the dot com boom and bust era.

That's due in part to a near 45-year low in interest rates appearing just as many small investors were pulling out of the stock market when values began to fall in 2000, the Harvard study says.

Acquired equity, along with low interest rates, has allowed many laid off, outsourced and otherwise unemployed homeowners to "eat their home" or live off the equity gain until better days arrived.

The study also reiterated the intrinsic tangible value of home ownership as physical shelter that also shelters owners from taxes while yielding a financial return.

There is also value in home buying as a highly leveraged investment. Buyers get a large piece of the rock for a small, upfront investment in the form of a down payment and closing costs.

In return "investors" build wealth in two ways -- through price appreciation and via forced savings in the form of mortgage payments that shrink the principal.

"It is also appealing because it allows owners to tap into that wealth at favorable interest rates to finance other forms of investment and consumption," Lereah said.

A growing number of homeowners are doing just that and they are rolling their returns right back into real estate in the form of home improvements and second home purchases.

The NAR-commissioned study isn't without an ominous edge. Its findings suggest that an expansion of monetary policy -- a lowering of interest rates -- at the onset of economic weakness can boost the economy. On the other hand, higher interest rates could slow home sales, reduce equity borrowing, curtail consumer spending and send the economy into another tail spin.

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David Maplesden, GRI,SRS
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http://www.david-maplesden.com

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Electronic Payments, Benefits Increase

By Broderick Perkins

The number of electronic payments has surpassed the number of check payments for the first time in the nation and consumers are reaping benefits.

The Federal Reserve says electronic payment transactions totaled 44.5 billion in 2003. The number of checks paid totaled 36.7 million. In 2000, the last time the Fed checked the numbers, checks were ahead totaling 41.9 billion, compared to 30.6 billion for electronic payments.

The 2004 Federal Reserve Payments Study also found:

- Check payments, at $39.3 trillion, remained the leader in dollar amounts. Electronic payments equaled $27.4 trillion in 2003, but that's due to change in a few years.
- Electronic payments came in three forms -- debit cards (15.6 billion transactions, valued at $0.6 trillion); automated clearinghouse (ACH) transactions (9.1 billion transactions, valued at $25.1 trillion); and credit cards (19 billion transactions valued at $1.7 trillion).
- Check use is declining at the average annual rate of 4.3% while electronic payment use is increasing at the annual rate of 13.2% the Fed said. Debit card transactions, with an estimated annual growth rate of 23.5%, is the fastest growing type of electronic payment.

"The balance has shifted from check writing to electronic payments, and we expect this trend to continue," said Richard Oliver, senior vice president of the Federal Reserve Bank of Atlanta. "Indeed, at current growth rates, credit cards and debit cards will both surpass checks in terms of total annual transactions in 2007," he added.

Remember the hue and cry over security concerns years ago when consumers jumped into electronic payment systems, largely via online shopping?

Ironically, one reason for the growing popularity of electronic payments is that the digital payment method has turned out to be a more secure transaction than the paper trail. That's because, one study says, viewing and paying bills and statements online eliminates the most common means of identity theft -- hard copy.

Identity thieves are not unlike burglars or other personal property thieves in their methods of operation. They want an easy mark. It requires much more sophistication to break into online systems protected by encryption software than to snatch a piece of paper from mailboxes, trash bins or your desktop.

"ID theft is typically done through a piece of paper. Forty-four percent of all ID fraud starts with a simple theft -- a wallet or a purse. In the case of new accounts being fraudulently set up, 14% is caused by the perpetrator taking things out of a mail box. Paper is where the crime is being committed. If you follow the paper trail, so to speak, it leads you back to a piece of paper," said James Van Dyke, founder and principal analyst of Javelin Strategy and Research, a Pleasanton, CA-based consultant for financial services, payments, and commerce sector companies.

"The biggest sources of ID theft are friends and family and a paper shredder is not going to help you with that. By the time you shred the documents, someone has already seen it," Van Dyke said.

In addition to removing the paper trail, electronic payments give you a clue much more quickly when trouble arises because you can see your account typically 24 hours a day. Javelin says paper-based customers typically see their accounts once a month and because of the nature of billing cycles, monthly statements can include activity that's more than a month old.

Online customers often can set up their account with triggers that automatically e-mail them with bulletins when, say, payments are due, they initiate a charge or payment, they exceed their credit limit or perform other transactions.

The vast majority of consumers who've used and rated electronic payment services on the Epinions.com website, give high ratings to the services. "If every consumer went out and did this tomorrow (paperless banking) the risk of identity theft would instantly drop by 10.4%," said Van Dyke.

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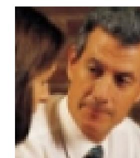
Why Broker Advice Will Become More Valuable

By Peter G. Miller



One of the great assumptions made by many in real estate is that prices are like the morning sun, they'll always rise. You see this premise repeatedly and with some logic: Figures from the National Association of Realtors show that cash prices paid for existing homes have risen every year since 1968.

However, before getting giddy about such results it's good to remember several points:

- While real estate prices may have risen in cash terms, they may not have risen as fast as inflation for a given year. This means the value of real estate, as measured in terms of what the dollar can buy, actually declined in some years.
- Although prices nationwide may have risen generally, that does not mean prices in every state, city, hamlet, and burg also rose.
- In those cases where values have fallen, declines are also understated because they do not reflect the reduced buying power of dollars eroded by inflation.
- Prices may have risen nationwide, in your city and in your community, but such increases have little value if they do not also include properties on your street.

Because real estate is typically a long-term investment, year-to-year price changes have been irrelevant for most owners -- at least in the past. But the fact that our economy has done stunningly well since the end of World War II does not mean we will forever see expansion, growth and rising home values in all places and at all times. As folks on Wall Street say, past performance does not guarantee future results.

The economic growth of China, India and the European Union mean that as a nation we have new competition. Our huge budget deficit ($413 billion in the past fiscal year) and vast balance-of-payments deficits (probably $600 billion this year) assure that interest rates will rise.

Here's another reason for rising interest rates: America has been the world's bread basket for decades. Our farmers -- a tiny percentage of our population -- have easily produced enough food to feed not only our citizens but huge numbers of people overseas.

But now, for the first time, the Agriculture Department tells us that food "imports are forecast at $56 billion, continuing a 40-year upward trend that will result in balanced agricultural trade in 2005."

Balanced? In plain language our vast agricultural surplus has eroded and commodity sales which used to offset import costs for goods and services are now gone. If the trend continues, if food exports decline and imports increase, the U.S. will become a food importer -- an astonishing reversal for a nation that folk-singer Woody Guthrie called a "pasture of plenty."

A year ago, for the third quarter of 2003, NAR said that prices in 124 metro areas showed strong gains -- 41 areas had double-digit advances and only two showed "minor" declines.

For the third quarter of this year, NAR reported that among 127 metro areas most showed price increases and 45 had double-digit price rises when compared with a year ago. This is surely good news, especially for those who own in metro centers with soaring prices.

However, NAR also points out that prices fell in 11 areas, including Canton (-1.9%), Dallas (-1.6%), Indianapolis (-1.2%), Kalamazoo (-3.0%), Louisville (-1.4%), Syracuse (-1.9%) and Waterloo-Cedar Rapids (-1.6%).

With little reservation it used to be that a good and logical real estate strategy was to buy as much house as possible because it made sense to own a huge appreciating asset. It also made sense to borrow as much as possible because rising asset values and generally-declining interest rates assured that with time the loan could be easily re-paid. The conditions which encouraged such thinking are still the case in many areas, but not everywhere.

It's easy to pick winners when the tide is rising -- but not so easy when the waters are calm or even dropping. The changes we're seeing mean the marketplace is becoming more complex and the stakes are changing. More than in the past few decades, it's now possible to pick a loser. With less certainty one outcome is that *local* real estate services and the brokers who provide them are about to become more valuable.

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david@maplesdengroup.com
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U.S. Home Value Appreciation Rate Breaks Record

By Kenneth R. Harney

America's home value appreciation rate is hot, hot, hot -- hotter than any time in nearly three decades, according to the latest federal statistical study.

Though most housing and mortgage market economists had forecast a steady slowing of appreciation rates for 2004, home values have instead accelerated. The home price inflation rate hit a 25-year high of 12.97 percent in the third quarter of 2004, measured against the third quarter of 2003.

But 12.97 percent barely hints at how torrid the housing inflation rate really is, said the Office of Federal Housing Enterprise Oversight (OFHEO), the agency that tracks home price movements in more than 250 metropolitan and rural markets. OFHEO's database sample comprises over 28.8 million repeat sales and refinancings on existing single-family properties spread across the country. Since the houses were all financed or refinanced through Fannie Mae or Freddie Mac, OFHEO has direct access to the properties' selling prices and appraisals.

The annualized quarterly rate for the country as a whole during the third quarter was 18.48 percent -- also the highest recorded by the Home Price Index in its 29 years of existence. But dozens of large metropolitan areas far outstripped even that rate on an annual basis. Consider these eye-popping numbers:

- On a year-to-year basis, home values rose by 35.78 percent in Nevada, according to OFHEO, followed by Hawaii (28.29 percent), California (27.18 percent), Washington DC (23.95 percent), Rhode Island (22.54 percent), and Maryland (22.32 percent).
- Thirteen states had annual appreciation rates in excess of 15 percent, and 26 states had rates in double digits, another first. Even the slowest appreciating states had rates close to or higher than 4 percent. As recently as mid-1998, by contrast, 4 percent was the average annual appreciation rate for the U.S. as a whole. No states in the latest study experienced a decrease in home values during the preceding 12 months.
- A handful of individual metropolitan housing markets literally went off the charts in the latest OFHEO data. Homes in the Las Vegas-Paradise market gained 41.74 percent in resale value over the last 12 months, followed by Riverside-San Bernadino, CA (33.81 percent) and Reno, NV (31.9 percent).
- Among the metropolitan areas with the highest populations that experienced super-heated appreciation, Los Angeles took the top of the list at 30.47 percent, followed by San Diego at 30.42 percent. Eleven of the top 20 appreciating markets were in California.
- Hottest markets outside of California and Nevada were along the East coast: Port St. Lucie, FL (28.15 percent), Palm Bay-Melbourne, FL (28.06 percent), Washington DC (including VA, MD and West Virginia, up 24.01 percent), Punta Gorda, FL (23.84 percent) and Atlantic City, NJ (23.65 percent).
- Slowest appreciating metropolitan markets tended to be in areas where local economic growth has been weak and unemployment is a problem -- Lafayette, IN (0.10 percent appreciation over the last year), Ogden, UT (1.12 percent growth), Anderson, SC (1.27 percent) and Austin, TX (2.08 percent).

OFHEO chief economist Patrick Lawler attributed the appreciation rate spurt to two possible factors: Continued low mortgage rates -- hovering just above 40-year lows for much of 2004 -- and a statistical quirk caused by the phaseout of the refinancing boom.

Lawler believes the appraisals used to value many refinanced properties during the past few years could have understated the actual market worth of the houses.

That, in turn, could cause a spike in the reported prices of the houses when they are resold and appraised for new purchasers.

David Maplesden, GRI,SRS
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Using Your IRA For Real Estate Investing

By Phoebe Chongchua

It can be a painful experience. Many people cringe as they open their stock market investment statements. Discouraged by the lack of earnings, many are retiring Wall Street's services and instead seeking other investments in an effort to build up their retirement portfolios.

Most brokerage or mutual fund firms are similar, offering services that require clients to invest in mutual funds or stocks and bonds.

But, "We are one of a few firms in our business that will accommodate what is known as unique assets or non-traditional assets," says Jim Wagner, CEO of Trust Administration Services Corporation, a subsidiary of First Regional Bank.

The Carlsbad, Calif.-based company has been helping clients broaden the diversification of their retirement portfolios since 1998. "Our niche is that we will accommodate traditional retirement investing, but in addition we will administer and record-keep for real estate trust deeds, private stock, things like that," says Wagner.

Through the use of a "self-directed IRA," an account that allows you to select your own investments, "investors can sell real estate, buy stocks, sell stocks, buy real estate, back and forth, all within one retirement plan," explains Wagner.

The same tax benefits remain regardless of whether you're buying stocks or real estate, "All gains are tax-deferred as you buy and sell within the retirement," says Wagner.

The concept, although not new, is catching on, likely because of our hot real estate market.

"A bigger percentage of our new plans that we set up is being invested in real estate and have been over the last year-and-a-half. I'd say 65 percent of our new business goes into real estate of some fashion, either direct investments or trust deeds or things like that," says Wagner.

Court Wilson is an Investment Retirement Consultant with Scripps Investments and Loans, Inc. The company provides opportunity for those interested in using their IRAs to invest.

"What my company does are Trust Deed Investments. We do a loan and we use a pool of investors' money to fund that loan. And some of it comes from personal money and some of it comes from retirement money," says Wilson.

Using your IRA for real estate investing has to be on investment properties only, not a residence. These days the returns can make the investment a welcome addition to a retirement portfolio, by using your IRA to fund another's loan.

"We can offer investors a real estate loan to a retirement account paying anywhere from 12-14 percent, collateralized by a first trust deed," says Wilson.

It's a fact that most people aren't prepared for retirement, the lack of corporate pension plans and the limited resources of Social Security are just a few contributing factors that make saving on your own even more vital.

Having diversification and a wide variety of investment choices for your IRA brings more opportunity for success, "It just opens up another window," says Wilson.

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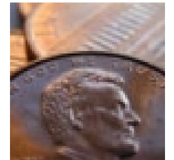
No Such Thing As Overnight Credit Repair

By David Reed



I finally got it. There it was, right in my Inbox. An email guaranteeing to improve my credit scores. I wonder what took so long? The "Can Spam" Act? Nah, that hasn't seemed to slow down anything. I guess it just took a while for someone to figure it out.

This is really a new variation on an old theme: credit repair. If you stroll down the aisles of most bookstores, you can see rows of books about consumer credit and how to "fix" bad credit. While most of the advice is standard consumer fare like "pay your bills on time" and "don't borrow too much" some try and use the system to get negative information off someone's credit report.

One of the tricks to get bad stuff removed from a report is to play the "30-day game" which works like this: The consumer sends an overnight letter disputing a negative item and hopes that the reporting company doesn't respond within 30 days. The rule is that anything that can't be documented on someone's credit report must be taken off. If there's an error and you dispute it, contact the company passing out the bad information and demand that they either verify their claim of bad faith on your part or remove it immediately.

The laws give such companies some leeway, in that they're given a little time to verifying the information you disagree with. This time frame is 30 days. If there's a collection account showing up on your report and it's not yours or it's not true, the reporting company has a 30-day period to prove what they're saying. If they can't, by law it must be removed.

The tricky part is hoping that the company won't or can't respond within 30 days. Some companies who charge for this service have all sorts of schemes to almost guarantee that verification can't take place within the required time frame by providing return addresses overseas or in far-off places. Even though the derogatory information might be correct, these companies have different methods to try and "trick" the system.

Now enter credit scores. The email I received just the other day made a similar claim & "We'll guarantee to increase your credit scores by having bad information legally taken off of your credit report." It's legal alright, as long as their tricks work. But the problem with having credit scores raised is that scores can't be re-calculated unless there's been a mistake corrected and the credit reporting agencies physically re-figure the credit score.

This new plan doesn't work because scores don't automatically change when something is taken off the report. As part of their secret formula, credit scores look over an entire two-year history as part of their calculations.

If something is a mistake, sure, the score can be re-done, but if it's simply removed for a temporary period of time, don't expect anything to happen. This new scheme to increase credit scores is just another in a long line of consumer scams. Don't get taken in.

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Home Equity Loans: Money Under Your Nose?

By Julian Block

In this time of constant change, there are still two things that stay the same: The tax collectors want more of your hard-earned money. And you want to keep more of it for the things you need. So it pays to consider the tax consequences beforehand as you make those everyday financial decisions, whether it be to go ahead with that much-needed face-lift for your kitchen or for yourself.

Be particularly mindful of how to use the tax rules to best advantage if you are a homeowner who has sizable outstanding loans. Because of restrictions on interest deductions, it could make sense to consolidate your debts and thereby reap a double benefit to be able to borrow at a lower rate, and gain a tax deduction, too. In fact, your home, whether a house, condo or co-op apartment, could open the door to one of your smartest money moves right now.

For starters, let's look at how the rules were tightened and then slightly relaxed. Previously, you could deduct all interest payments on "consumer" loans. Now, however, you get no deduction for consumer interest, a wide-ranging category that includes charge account and credit card balances, auto loans, and other personal debts, such as overdue federal and state income taxes. There is, though, a limited exception for interest on student loans.

Fortunately, most homeowners can sidestep the interest-deduction restrictions. You are still able to deduct 100 percent of the interest charges on as much as $1,000,000 of mortgage loans incurred to buy, build or improve your year-round residence and one other home, such as a vacation retreat.

Moreover, you can deduct 100 percent of the interest on up to an additional $100,000 of loans secured by your home, with no restrictions (other than the purchase of tax-exempt obligations) how you use the loan proceeds. These borrowings are known as home equity or tax-advantaged loans.

The home-mortgage-interest rules create a unique double benefit, should you tap the equity built up in your home. First, deducting the interest saves federal, as well as state and city income taxes, depending on where you live or work. Secondly, you borrow for less. How come? Because lenders furnish home equity loans at much lower interest rates than for comparable unsecured consumer loans.

Bottom line: Getting the things you need today needn't mean you're saddled with high interest rates. Instead, it can mean trimming taxes considerably, courtesy of a tax-advantaged loan.

How, then, does going this route help you? Many financial planners and tax advisers counsel clients to convert nondeductible consumer loans into less expensive, fully deductible, home equity loans. As long as the mortgage-interest rules remain unchanged, this strategy keeps more money in your pocket for this and later years.

Note, too, that debt consolidation is not the only reason to use tax-advantaged loans. Other borrowing needs might include such "big ticket" items as autos or furniture.

Home equity loans are not without some risk, however. Because there is a lien of your home, the lender has the option to foreclose on your property if circumstances prevent you from repaying the loan. So it's important to calculate accurately your ability to repay any loan for which your home is collateral. If you feel uncomfortable with this type of risk, take a look at other borrowing alternatives.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

Your REALTOR®

David Maplesden

January 2005

REAL ESTATE Update

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

January Real Estate Update

Rates Remain Affordable

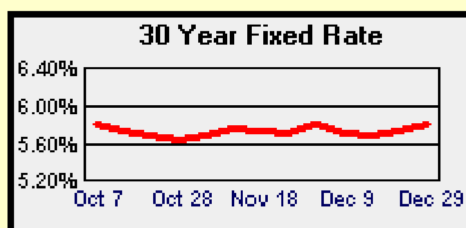
Mortgage interest rates are ending the year just about where they were when 2004 began -- hovering below the very affordable 6 percent mark.

Freddie Mac's Weekly Mortgage Market Survey put the average fixed interest rate for 30-year conforming loans at 5.87 percent on Jan. 8, 2004, in the year's first weekly survey. On Dec. 30, rates were at 5.81 percent. Still, rates finished 2004 well off the 6.75 rate originally forecast.

Slower economic growth in 2005 should hold average mortgage rates to 6.5 percent or lower throughout 2005, according to the Mortgage Bankers Association forecast.

Mortgage Rates

Source: Realty Times



U.S. averages as of December 29, 2004:

30 yr. fixed:	**5.81%**
15 yr. fixed:	**5.23%**
1 yr. adj:	**4.19%**

2004-2005 Home Sales Remain Bullish

The National Association of Realtors revised upward its year-end forecast for home sales and the trade group projects the healthy housing market will stay alive and well in 2005.

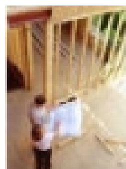
By the end of 2004, existing-home sales should be up 7.9 percent to 6.58 million, easily surpassing 2003's record. In 2005, the National Association of Realtors projects 6.38 million sales, the second highest level in history. The median price on existing homes will rise 7.9 percent to $182,500 in 2004 and another 5 percent in 2005.

New-home sales are expected to rise 8.9 percent to a record 1.18 million in 2004, but only 1.13 million in 2005. New-home prices should be up 8.9 percent to $214,600 in 2004 and another 5.8 percent in 2005.

"We're setting our fourth consecutive record year for existing-home sales, and even with strong fundamentals such as household growth, low interest rates and an improving economy, we simply can't set records every year," said David Lereah, the National Association of Realtors' chief economist.

"Given the sharp rise over last year's record, a lot of buyers have found the home they've been looking for and we can expect a bit of a breather in 2005, which will remain a historically strong year," as builders work to ease the backup in housing demand, he added.

Efficient Homes Offset Energy Costs



Freddie Mac analyzed data from the American Housing Survey (AHS) and found that fuel cost as a percentage of home value was about 0.8 percent between 2000 and 2003, versus about 1.8 percent before 1960 and an average of 1.3 percent in the oil crisis decade of the 1970s. While some of the cost difference can be attributed to home value appreciation, Freddie Mac says much of it is due to recently built homes that are about twice as energy efficient as homes built in the 1960s. Crude oil pulled back from a peak of $55.23 per barrel in October, but remains far off the $30 a barrel mark of a year ago.

Laundry Rooms a Hot Amenity for Homebuyers

Laundry rooms top buyers' list of most desired extra rooms, regardless of the property size or the buyer's income, according to a survey by the National Association of Home Builders.

Laundry rooms are no longer relegated to the basement, and many buyers are requesting more than one. They are now multi-purpose spaces, where homeowners store cleaning and pet supplies, surf the Web, and do crafts.

Builders of single-family homes priced under $200,000 have made deluxe laundry rooms a standard feature, and many are including them in multi-family structures as well.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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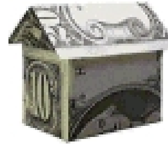
Housing Is The New Economy

By Broderick Perkins



Outpacing the flaccid, once technology-driven stock sector as an investment tool, the more potent housing market has hammered home its position as a cornerstone of the economy's foundation -- and it appears to have much more staying power.

Consumer spending is the real petrol that powers the economic engine and housing wealth is proving to be a stouter grade of fuel than stock market investments. Housing and all its related transactions -- purchasing, furnishing, maintaining, improving and investments -- accounted for 23.1 percent of Gross Domestic Product in 2003 and over the past 50 years that figure has been as high as 25 percent.

Consumers spend about five-and-a-half cents out of every dollar increase in both housing wealth and stock wealth. Spending from housing wealth, however, takes only a year or so to reach 80 percent of its long-run wealth effect, compared with nearly five years for the same effect from stock market investments," according to "Housing Wealth Effects," produced by the Joint Center for Housing Studies at Harvard University and Macroeconomic Advisers, LCC.

"In other words, housing produces a quicker lift to the economy while home-price growth provides lasting benefits," said David Lereah, the National Association of Realtor's chief economist.

"Homeowners are more confident of gains in housing wealth, so they spend more readily and quickly when they occur," he added. NAR's National Center for Real Estate Research commissioned the study.

For years, many homeowners have known the feeling of owning, something once called the "psychological equivalent of gold," and the new Harvard study helps second that emotion. The new study also says:

- About six in 10 homeowners have more home equity than stock wealth. The percentage is higher among lower income households, according to another study.
- Housing wealth accounts for 36 percent of the nation's tangible assets.
- Late last year, the home ownership rate was 68 percent, but only 52 percent of households held stock.
- In 2001, the Federal Reserve Board's Survey of Consumer Finances showed that the top 1 percent of stockholders controlled 33.5 percent of stock, while the top 1 percent of homeowners controlled 13 percent of home equity.

A less scientific study by EscapeHomes.com revealed earlier this year that homes in select second home markets were appreciating even faster -- by as much as twice as fast as the rest of the housing market. Strong anecdotal evidence also points to a growing trend of investors who traded in stock market investments for residential real estate -- both those who won and lost during the dot com boom and bust era.

That's due in part to a near 45-year low in interest rates appearing just as many small investors were pulling out of the stock market when values began to fall in 2000, the Harvard study says.

Acquired equity, along with low interest rates, has allowed many laid off, outsourced and otherwise unemployed homeowners to "eat their home" or live off the equity gain until better days arrived.

The study also reiterated the intrinsic tangible value of home ownership as physical shelter that also shelters owners from taxes while yielding a financial return.

There is also value in home buying as a highly leveraged investment. Buyers get a large piece of the rock for a small, upfront investment in the form of a down payment and closing costs.

In return "investors" build wealth in two ways -- through price appreciation and via forced savings in the form of mortgage payments that shrink the principal.

"It is also appealing because it allows owners to tap into that wealth at favorable interest rates to finance other forms of investment and consumption," Lereah said.

A growing number of homeowners are doing just that and they are rolling their returns right back into real estate in the form of home improvements and second home purchases.

The NAR-commissioned study isn't without an ominous edge. Its findings suggest that an expansion of monetary policy -- a lowering of interest rates -- at the onset of economic weakness can boost the economy. On the other hand, higher interest rates could slow home sales, reduce equity borrowing, curtail consumer spending and send the economy into another tail spin.

Equal Housing Opportunity

David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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Electronic Payments, Benefits Increase

By Broderick Perkins

The number of electronic payments has surpassed the number of check payments for the first time in the nation and consumers are reaping benefits.

The Federal Reserve says electronic payment transactions totaled 44.5 billion in 2003. The number of checks paid totaled 36.7 million. In 2000, the last time the Fed checked the numbers, checks were ahead totaling 41.9 billion, compared to 30.6 billion for electronic payments.

The 2004 Federal Reserve Payments Study also found:

- Check payments, at $39.3 trillion, remained the leader in dollar amounts. Electronic payments equaled $27.4 trillion in 2003, but that's due to change in a few years.
- Electronic payments came in three forms -- debit cards (15.6 billion transactions, valued at $0.6 trillion); automated clearinghouse (ACH) transactions (9.1 billion transactions, valued at $25.1 trillion); and credit cards (19 billion transactions valued at $1.7 trillion).
- Check use is declining at the average annual rate of 4.3% while electronic payment use is increasing at the annual rate of 13.2% the Fed said. Debit card transactions, with an estimated annual growth rate of 23.5%, is the fastest growing type of electronic payment.

"The balance has shifted from check writing to electronic payments, and we expect this trend to continue," said Richard Oliver, senior vice president of the Federal Reserve Bank of Atlanta. "Indeed, at current growth rates, credit cards and debit cards will both surpass checks in terms of total annual transactions in 2007," he added.

Remember the hue and cry over security concerns years ago when consumers jumped into electronic payment systems, largely via online shopping?

Ironically, one reason for the growing popularity of electronic payments is that the digital payment method has turned out to be a more secure transaction than the paper trail. That's because, one study says, viewing and paying bills and statements online eliminates the most common means of identity theft -- hard copy.

Identity thieves are not unlike burglars or other personal property thieves in their methods of operation. They want an easy mark. It requires much more sophistication to break into online systems protected by encryption software than to snatch a piece of paper from mailboxes, trash bins or your desktop.

"ID theft is typically done through a piece of paper. Forty-four percent of all ID fraud starts with a simple theft -- a wallet or a purse. In the case of new accounts being fraudulently set up, 14% is caused by the perpetrator taking things out of a mail box. Paper is where the crime is being committed. If you follow the paper trail, so to speak, it leads you back to a piece of paper," said James Van Dyke, founder and principal analyst of Javelin Strategy and Research, a Pleasanton, CA-based consultant for financial services, payments, and commerce sector companies.

"The biggest sources of ID theft are friends and family and a paper shredder is not going to help you with that. By the time you shred the documents, someone has already seen it," Van Dyke said.

In addition to removing the paper trail, electronic payments give you a clue much more quickly when trouble arises because you can see your account typically 24 hours a day. Javelin says paper-based customers typically see their accounts once a month and because of the nature of billing cycles, monthly statements can include activity that's more than a month old.

Online customers often can set up their account with triggers that automatically e-mail them with bulletins when, say, payments are due, they initiate a charge or payment, they exceed their credit limit or perform other transactions.

The vast majority of consumers who've used and rated electronic payment services on the Epinions.com website, give high ratings to the services. "If every consumer went out and did this tomorrow (paperless banking) the risk of identity theft would instantly drop by 10.4%," said Van Dyke.

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David Maplesden, GRI,SRS
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david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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Why Broker Advice Will Become More Valuable

By Peter G. Miller

One of the great assumptions made by many in real estate is that prices are like the morning sun, they'll always rise. You see this premise repeatedly and with some logic: Figures from the National Association of Realtors show that cash prices paid for existing homes have risen every year since 1968.

However, before getting giddy about such results it's good to remember several points:

- While real estate prices may have risen in cash terms, they may not have risen as fast as inflation for a given year. This means the value of real estate, as measured in terms of what the dollar can buy, actually declined in some years.
- Although prices nationwide may have risen generally, that does not mean prices in every state, city, hamlet, and burg also rose.
- In those cases where values have fallen, declines are also understated because they do not reflect the reduced buying power of dollars eroded by inflation.
- Prices may have risen nationwide, in your city and in your community, but such increases have little value if they do not also include properties on your street.

Because real estate is typically a long-term investment, year-to-year price changes have been irrelevant for most owners -- at least in the past. But the fact that our economy has done stunningly well since the end of World War II does not mean we will forever see expansion, growth and rising home values in all places and at all times. As folks on Wall Street say, past performance does not guarantee future results.

The economic growth of China, India and the European Union mean that as a nation we have new competition. Our huge budget deficit ($413 billion in the past fiscal year) and vast balance-of-payments deficits (probably $600 billion this year) assure that interest rates will rise.

Here's another reason for rising interest rates: America has been the world's bread basket for decades. Our farmers -- a tiny percentage of our population -- have easily produced enough food to feed not only our citizens but huge numbers of people overseas.

But now, for the first time, the Agriculture Department tells us that food "imports are forecast at $56 billion, continuing a 40-year upward trend that will result in balanced agricultural trade in 2005."

Balanced? In plain language our vast agricultural surplus has eroded and commodity sales which used to offset import costs for goods and services are now gone. If the trend continues, if food exports decline and imports increase, the U.S. will become a food importer -- an astonishing reversal for a nation that folk-singer Woody Guthrie called a "pasture of plenty."

A year ago, for the third quarter of 2003, NAR said that prices in 124 metro areas showed strong gains -- 41 areas had double-digit advances and only two showed "minor" declines.

For the third quarter of this year, NAR reported that among 127 metro areas most showed price increases and 45 had double-digit price rises when compared with a year ago. This is surely good news, especially for those who own in metro centers with soaring prices.

However, NAR also points out that prices fell in 11 areas, including Canton (-1.9%), Dallas (-1.6%), Indianapolis (-1.2%), Kalamazoo (-3.0%), Louisville (-1.4%), Syracuse (-1.9%) and Waterloo-Cedar Rapids (-1.6%).

With little reservation it used to be that a good and logical real estate strategy was to buy as much house as possible because it made sense to own a huge appreciating asset. It also made sense to borrow as much as possible because rising asset values and generally-declining interest rates assured that with time the loan could be easily re-paid. The conditions which encouraged such thinking are still the case in many areas, but not everywhere.

It's easy to pick winners when the tide is rising -- but not so easy when the waters are calm or even dropping. The changes we're seeing mean the marketplace is becoming more complex and the stakes are changing. More than in the past few decades, it's now possible to pick a loser. With less certainty one outcome is that *local* real estate services and the brokers who provide them are about to become more valuable.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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U.S. Home Value Appreciation Rate Breaks Record

By Kenneth R. Harney

America's home value appreciation rate is hot, hot, hot -- hotter than any time in nearly three decades, according to the latest federal statistical study.

Though most housing and mortgage market economists had forecast a steady slowing of appreciation rates for 2004, home values have instead accelerated. The home price inflation rate hit a 25-year high of 12.97 percent in the third quarter of 2004, measured against the third quarter of 2003.

But 12.97 percent barely hints at how torrid the housing inflation rate really is, said the Office of Federal Housing Enterprise Oversight (OFHEO), the agency that tracks home price movements in more than 250 metropolitan and rural markets. OFHEO's database sample comprises over 28.8 million repeat sales and refinancings on existing single-family properties spread across the country. Since the houses were all financed or refinanced through Fannie Mae or Freddie Mac, OFHEO has direct access to the properties' selling prices and appraisals.

The annualized quarterly rate for the country as a whole during the third quarter was 18.48 percent -- also the highest recorded by the Home Price Index in its 29 years of existence. But dozens of large metropolitan areas far outstripped even that rate on an annual basis. Consider these eye-popping numbers:

- On a year-to-year basis, home values rose by 35.78 percent in Nevada, according to OFHEO, followed by Hawaii (28.29 percent), California (27.18 percent), Washington DC (23.95 percent), Rhode Island (22.54 percent), and Maryland (22.32 percent).
- Thirteen states had annual appreciation rates in excess of 15 percent, and 26 states had rates in double digits, another first. Even the slowest appreciating states had rates close to or higher than 4 percent. As recently as mid-1998, by contrast, 4 percent was the average annual appreciation rate for the U.S. as a whole. No states in the latest study experienced a decrease in home values during the preceding 12 months.
- A handful of individual metropolitan housing markets literally went off the charts in the latest OFHEO data. Homes in the Las Vegas-Paradise market gained 41.74 percent in resale value over the last 12 months, followed by Riverside-San Bernadino, CA (33.81 percent) and Reno, NV (31.9 percent).
- Among the metropolitan areas with the highest populations that experienced super-heated appreciation, Los Angeles took the top of the list at 30.47 percent, followed by San Diego at 30.42 percent. Eleven of the top 20 appreciating markets were in California.
- Hottest markets outside of California and Nevada were along the East coast: Port St. Lucie, FL (28.15 percent), Palm Bay-Melbourne, FL (28.06 percent), Washington DC (including VA, MD and West Virginia, up 24.01 percent), Punta Gorda, FL (23.84 percent) and Atlantic City, NJ (23.65 percent).
- Slowest appreciating metropolitan markets tended to be in areas where local economic growth has been weak and unemployment is a problem -- Lafayette, IN (0.10 percent appreciation over the last year), Ogden, UT (1.12 percent growth), Anderson, SC (1.27 percent) and Austin, TX (2.08 percent).

OFHEO chief economist Patrick Lawler attributed the appreciation rate spurt to two possible factors: Continued low mortgage rates -- hovering just above 40-year lows for much of 2004 -- and a statistical quirk caused by the phaseout of the refinancing boom.

Lawler believes the appraisals used to value many refinanced properties during the past few years could have understated the actual market worth of the houses.

That, in turn, could cause a spike in the reported prices of the houses when they are resold and appraised for new purchasers.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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Using Your IRA For Real Estate Investing

By Phoebe Chongchua

It can be a painful experience. Many people cringe as they open their stock market investment statements. Discouraged by the lack of earnings, many are retiring Wall Street's services and instead seeking other investments in an effort to build up their retirement portfolios.

Most brokerage or mutual fund firms are similar, offering services that require clients to invest in mutual funds or stocks and bonds.

But, "We are one of a few firms in our business that will accommodate what is known as unique assets or non-traditional assets," says Jim Wagner, CEO of Trust Administration Services Corporation, a subsidiary of First Regional Bank.

The Carlsbad, Calif.-based company has been helping clients broaden the diversification of their retirement portfolios since 1998. "Our niche is that we will accommodate traditional retirement investing, but in addition we will administer and record-keep for real estate trust deeds, private stock, things like that," says Wagner.

Through the use of a "self-directed IRA," an account that allows you to select your own investments, "investors can sell real estate, buy stocks, sell stocks, buy real estate, back and forth, all within one retirement plan," explains Wagner.

The same tax benefits remain regardless of whether you're buying stocks or real estate, "All gains are tax-deferred as you buy and sell within the retirement," says Wagner.

The concept, although not new, is catching on, likely because of our hot real estate market.

"A bigger percentage of our new plans that we set up is being invested in real estate and have been over the last year-and-a-half. I'd say 65 percent of our new business goes into real estate of some fashion, either direct investments or trust deeds or things like that," says Wagner.

Court Wilson is an Investment Retirement Consultant with Scripps Investments and Loans, Inc. The company provides opportunity for those interested in using their IRAs to invest.

"What my company does are Trust Deed Investments. We do a loan and we use a pool of investors' money to fund that loan. And some of it comes from personal money and some of it comes from retirement money," says Wilson.

Using your IRA for real estate investing has to be on investment properties only, not a residence. These days the returns can make the investment a welcome addition to a retirement portfolio, by using your IRA to fund another's loan.

"We can offer investors a real estate loan to a retirement account paying anywhere from 12-14 percent, collateralized by a first trust deed," says Wilson.

It's a fact that most people aren't prepared for retirement, the lack of corporate pension plans and the limited resources of Social Security are just a few contributing factors that make saving on your own even more vital.

Having diversification and a wide variety of investment choices for your IRA brings more opportunity for success, "It just opens up another window," says Wilson.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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No Such Thing As Overnight Credit Repair

By David Reed

I finally got it. There it was, right in my Inbox. An email guaranteeing to improve my credit scores. I wonder what took so long? The "Can Spam" Act? Nah, that hasn't seemed to slow down anything. I guess it just took a while for someone to figure it out.

This is really a new variation on an old theme: credit repair. If you stroll down the aisles of most bookstores, you can see rows of books about consumer credit and how to "fix" bad credit. While most of the advice is standard consumer fare like "pay your bills on time" and "don't borrow too much" some try and use the system to get negative information off someone's credit report.

One of the tricks to get bad stuff removed from a report is to play the "30-day game" which works like this: The consumer sends an overnight letter disputing a negative item and hopes that the reporting company doesn't respond within 30 days. The rule is that anything that can't be documented on someone's credit report must be taken off. If there's an error and you dispute it, contact the company passing out the bad information and demand that they either verify their claim of bad faith on your part or remove it immediately.

The laws give such companies some leeway, in that they're given a little time to verifying the information you disagree with. This time frame is 30 days. If there's a collection account showing up on your report and it's not yours or it's not true, the reporting company has a 30-day period to prove what they're saying. If they can't, by law it must be removed.

The tricky part is hoping that the company won't or can't respond within 30 days. Some companies who charge for this service have all sorts of schemes to almost guarantee that verification can't take place within the required time frame by providing return addresses overseas or in far-off places. Even though the derogatory information might be correct, these companies have different methods to try and "trick" the system.

Now enter credit scores. The email I received just the other day made a similar claim & "We'll guarantee to increase your credit scores by having bad information legally taken off of your credit report." It's legal alright, as long as their tricks work. But the problem with having credit scores raised is that scores can't be re-calculated unless there's been a mistake corrected and the credit reporting agencies physically re-figure the credit score.

This new plan doesn't work because scores don't automatically change when something is taken off the report. As part of their secret formula, credit scores look over an entire two-year history as part of their calculations.

If something is a mistake, sure, the score can be re-done, but if it's simply removed for a temporary period of time, don't expect anything to happen. This new scheme to increase credit scores is just another in a long line of consumer scams. Don't get taken in.

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David Maplesden, GRI,SRS
301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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Home Equity Loans: Money Under Your Nose?

By Julian Block

In this time of constant change, there are still two things that stay the same: The tax collectors want more of your hard-earned money. And you want to keep more of it for the things you need. So it pays to consider the tax consequences beforehand as you make those everyday financial decisions, whether it be to go ahead with that much-needed face-lift for your kitchen or for yourself.

Be particularly mindful of how to use the tax rules to best advantage if you are a homeowner who has sizable outstanding loans. Because of restrictions on interest deductions, it could make sense to consolidate your debts and thereby reap a double benefit to be able to borrow at a lower rate, and gain a tax deduction, too. In fact, your home, whether a house, condo or co-op apartment, could open the door to one of your smartest money moves right now.

For starters, let's look at how the rules were tightened and then slightly relaxed. Previously, you could deduct all interest payments on "consumer" loans. Now, however, you get no deduction for consumer interest, a wide-ranging category that includes charge account and credit card balances, auto loans, and other personal debts, such as overdue federal and state income taxes. There is, though, a limited exception for interest on student loans.

Fortunately, most homeowners can sidestep the interest-deduction restrictions. You are still able to deduct 100 percent of the interest charges on as much as $1,000,000 of mortgage loans incurred to buy, build or improve your year-round residence and one other home, such as a vacation retreat.

Moreover, you can deduct 100 percent of the interest on up to an additional $100,000 of loans secured by your home, with no restrictions (other than the purchase of tax-exempt obligations) how you use the loan proceeds. These borrowings are known as home equity or tax-advantaged loans.

The home-mortgage-interest rules create a unique double benefit, should you tap the equity built up in your home. First, deducting the interest saves federal, as well as state and city income taxes, depending on where you live or work. Secondly, you borrow for less. How come? Because lenders furnish home equity loans at much lower interest rates than for comparable unsecured consumer loans.

Bottom line: Getting the things you need today needn't mean you're saddled with high interest rates. Instead, it can mean trimming taxes considerably, courtesy of a tax-advantaged loan.

How, then, does going this route help you? Many financial planners and tax advisers counsel clients to convert nondeductible consumer loans into less expensive, fully deductible, home equity loans. As long as the mortgage-interest rules remain unchanged, this strategy keeps more money in your pocket for this and later years.

Note, too, that debt consolidation is not the only reason to use tax-advantaged loans. Other borrowing needs might include such "big ticket" items as autos or furniture.

Home equity loans are not without some risk, however. Because there is a lien of your home, the lender has the option to foreclose on your property if circumstances prevent you from repaying the loan. So it's important to calculate accurately your ability to repay any loan for which your home is collateral. If you feel uncomfortable with this type of risk, take a look at other borrowing alternatives.

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301-270-7026 Ext. 8716
david@maplesdengroup.com
http://www.david-maplesden.com

The Mapleden Group
Long and Foster Real Estate, Inc.
202-270-7253
7050 Carroll Ave
Takoma Park, MD 20912

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301-270-7026 Ext. 8716
david@maplesdengroup.com
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