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(iron man 2008)

interview with the indestructible iron man

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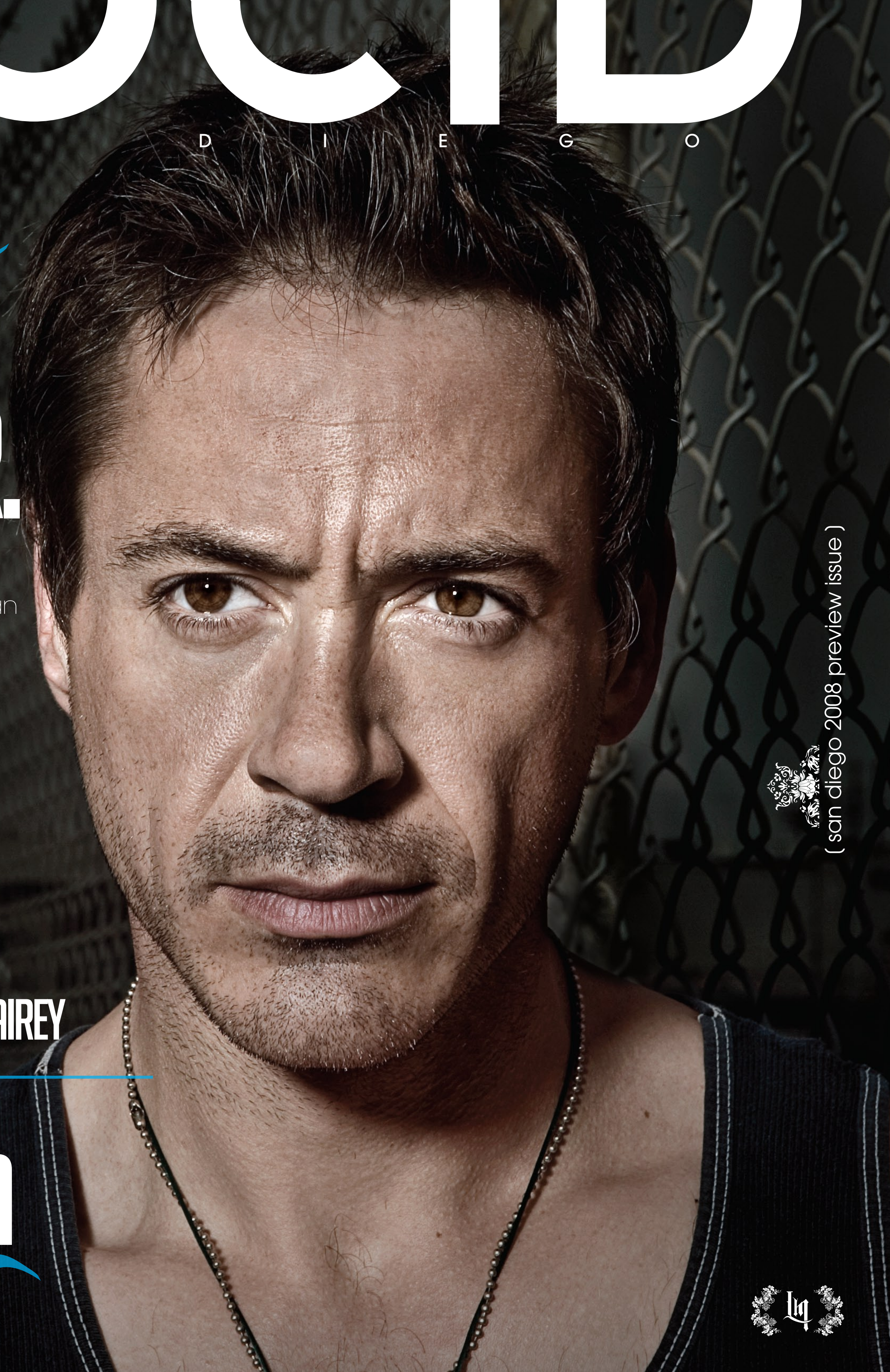
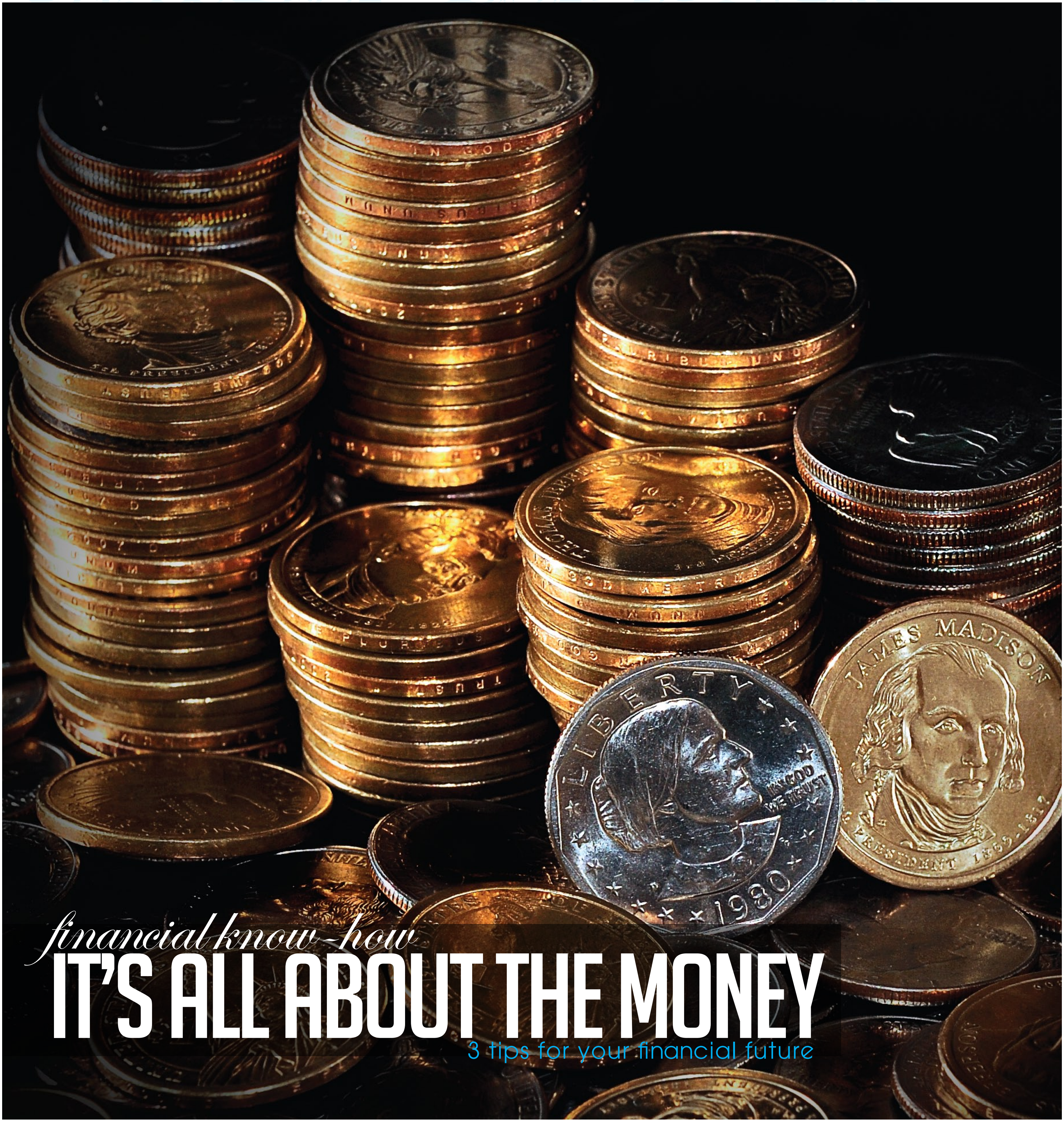


(san diego 2008 preview issue)



financial know-how

IT'S ALL ABOUT THE MONEY

3 tips for your financial future

Real Estate investing can be like extremely turbulent waters with crashing waves: declining values and adjustable rate mortgages. So how do you navigate those waters? Just follow these simple rules of real estate and hold on to your life jacket, it's going to be a storm out there!

Part one of a three part series of real estate and investment advice

Don't pay off your home mortgage! Contrary to popular belief, paying additional payments towards your home mortgage is actually counterproductive. Best-selling author Douglas Andrew, in his series of books entitled Missed Fortune, Missed Fortune 101 and Last Chance Millionaire, highlights the problems most baby boomers are currently facing with large amounts of home equity and not enough money to last through the retirement years. Mr. Andrew explains that equity that is trapped inside your home is what he refers to as "dormant equity" and essentially has no rate of return, is illiquid and highly risky. As an example, have you ever heard anyone in the wake of a catastrophe, wherein their home is destroyed say, "I'm so glad we just paid off our home?" Absolutely not. The risk of tying up equity in your home is that it will be untouchable when you actually need it, like when you lose your job or your kid gets into Harvard. Moreover, your home equity makes absolutely no return since your home appreciates the same regardless of how much equity you have in it. While most of us probably aren't heading into retirement anytime soon, we can learn from the mistakes of our parents and start doing the right thing today. What we are all taught to do is to make additional payments towards our mortgage or apartment for a 15-year loan, where we are forced to make larger payments towards our principal. Instead of choosing a 15-year principal and interest loan, ask your mortgage advisor for an interest only loan. Go for the longest term possible that doesn't cost you more in interest or origination fees. If it costs slightly more to get a longer-term loan, calculate the amount of time you think you'll be living in the property and then double it. That number should match or be less than the fixed period of your loan.

Don't live in your house for too long! With a growing number of Gen X's jumping from industry to industry and moving every few years, this doesn't necessarily come up as often as it used to. However, when it does come up, it's a doozy. You see, the Internal Revenue Service loves to take, take and take. But somewhere in that enormous IRA code book, there is a section that allows homeowners to avoid paying taxes on home appreciation of up to $250,000 for a single person and $500,000 for a married couple. That means no taxes: zero, zilch, stingy with dinero. The rule is that you must have lived in the property for at least 2 of the past 5 years. There are some more tricky rules if you convert the property from an investment, but essentially you can still utilize the exemption. The real question is, how do you take advantage of this IRS gift? You move. That's right; every time you have close to $250,000 of appreciation in your home, you move. You can even move next door to your neighbor's house if you love the neighborhood you are in. It doesn't matter where you move to, as long as you move, the IRS establishes a new basis for each property and the first $250,000 you make is tax free. Not bad when you consider that over the past 30 years, many areas have seen home prices increase in excess of 1,000%. Do you know what that is if you put a 10% down payment in 1978? That is an annual return of $_____! And some people think that real estate won't go up in the future? Think again. Take this scenario into consideration:

A hypothetical conversation in 2038-- Sally: Can you believe that Jon bought a property back in 2008 for only $1 million dollars? Too bad he didn't use the advice in Lucid Magazine and now, he'll have to pay takes on $29 million of appreciation.

Do invest into Private Trust Deeds! Private trust deeds are promissory notes secured by real property. Typically, the term "private" is synonymous with "hard money" or high-interest rate loans. Borrowers that fall under hard times have difficulty going through traditional banks to obtain loans. Private money lenders provide alternative financing for borrowers with bankruptcies, borrowers that are in foreclosure, or have low credit ratings. The downside…they pay outrageously high interest rates! And that's where you come in.

The larger banks don't want to get involved in these niche markets so smaller banks are better positioned to handle the high risk portfolios and will pay investors high returns so they can in turn, lend more money. Generally, private money lenders pay you when they receive the monthly payment from the borrower. Some lenders pool money from many investors, while others have an investor hold an individual note. If a borrower defaults, the lender will proceed with filing a notice of default (NOD) and after waiting the legally required period, will institute a foreclosure proceeding. Once the property is sold, often at auction in front of the court house steps, the lender is paid off. Pools operate slightly different, with the lender taking the risk of the borrower not making the payment and paying the investor on a monthly basis regardless.

The bottom line in investing in trust deeds is that they are secured by real property. Two things must occur for a loss to result to the investor. First, the borrower must default AND second, the property must sell for less during the foreclosure sale or auction. Since most private moneylenders lend less than 75% of the homes value, the investor has a "cushion" before any loss would result. The risk of investing in trust deeds vary from lender to lender, based on the position of the note relative to other lien holders, the combined loan-to-value (CLTV) of the property, and the location and condition of the subject property. Trust deed investing makes sense for many investors and can often be used in conjunction with home equity lines of credit (HELOC). A homeowner can borrow money at rates at or below the prime-lending rate and earn interest as high as 4%, 5%, or even 8% higher than what it costs to borrow that same money. Moreover, you don't need to be the next Donald Trump to invest into trust deeds; many lenders have loans as small as $25k, so you can start now!

by Prem Advani, Esq.