

the Mortgage Bulletin

Week of July 11th, 2011

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Bart Simpson
Cartoon Character

Your Logo Goes Here

Use this space for your personal message, for testimonials, for humorous or inspirational quotes, to promote a particular loan product -- use your imagination. Check to see where this appears.



Charles Burns
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Buy now, borrow later

Home buyers who need or want a mortgage in connection with their purchase know how difficult it can be to compete with an all cash buyer. All cash offers can be very appealing to some sellers.

Let's assume that you are a buyer who has enough cash to close on the home of your dreams. You can close quickly with all cash and thus be competitive with any other all cash buyers and of course, be competitive with buyers who need a loan.

But your financial advisor suggests that you have a mortgage rather than pay all cash in order to achieve your financial goals.

Further, you have been told by your financial advisor that IRS rules allow deduction of interest on mortgage loans (of a certain size) used to purchase a primary residence, but do not allow deduction of interest on "cash out" loans.

Note: The immediately preceding comments about interest deductibility are not to be considered as tax advice. Tax advice should come from your financial advisor or CPA.

Your mortgage broker is neither qualified nor licensed to give financial or tax advice.

So – can you use the power and competitive edge of an all cash offer, close escrow in a couple of days, and still get a mortgage on which interest is deductible?

Yes you can. You can close with cash, and within 90 days of closing, take out a mortgage loan on the new home, recapturing a portion of the cash you used to purchase the property.

There are a few things to know about this.

One: if you already own a home with a mortgage, you must be able to afford payments on your present home and on your new home – until you sell your present home.

So timing of the transaction is a consideration.

If you are selling your present home and

have a valid purchase contract with all contingencies removed before you close on the new loan, the lender will not count payments on your present home when computing debt to income ratios.

Two: most all lenders offer this financing product for conforming loans – up to \$417,000.

Three: a few (but very few) lenders offer this financing product if the new loan is above \$729,750. That sounds weird and it is, but this financing plan is not available for high balance conforming loans – those between \$417,001 and \$729,750.

To be clear, this product is available for loans up to \$417,000, not available for loans from \$417,001 to \$729,750, and is available for loans above \$729,750.

Four: buyers seeking this product must, of course, meet all lender guidelines including but not limited to – ratios of debt to income, credit score, documents proving source of funds including reserves after close.

Five: Consult with your financial advisor or CPA to confirm that mortgage interest is deductible on loans that are taken out within 90 days after purchase of the home. This is a critical part of the deal.

As mentioned, there are timing issues that must be addressed in determining if such a loan product can work for your particular circumstance. Make sure you understand the risks if events do not occur as planned.

Develop the strategy for the (post closing) mortgage loan with your mortgage broker.

Make loan application and get approved for the loan well in advance of an all cash offer. This will allow adequate time to address and resolve any unanticipated issues that could otherwise impact your ability to get the loan when you need it.

So – yes it can be possible to close with all cash and still have a loan on which mortgage interest is deductible.



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