Real Estate Review

By Carolyn Burt

October boasts National Fire Prevention Month. As I was watching TV the other day I caught a Hollywood celebrity coming on and talking about this most pertinent subject. She went on to say that her nephew had tragically died in a preventable house fire if the smoke alarm had been working properly. As our community heads into fall there is one reminder that seems to be catching on. When you change your clock from daylight to standard time in the fall, schedule battery replacements for the same day.

In three of every 10 reported fires in homes equipped with smoke alarms, the devices did not work. Households with non-working smoke alarms now outnumber those with no smoke alarms. Don't let one of those homes be yours.

Tips for installing your smoke alarms correctly:

- Install smoke alarms listed (that is, examined and tested to appropriate product safety standards) by a qualified testing laboratory on every level of your home, including the basement (but not unfinished attics). Make sure there is an alarm in or near every sleeping are. (This is mandatory when any real estate agent sells a home and we must always sign a document of disclosure to this fact.)
- Mount the smoke alarms high on ceiling or walls, Remember, smoke rises. Ceiling-mounted alarms should be installed at least four inches away from the nearest wall; wall-mounted alarms should be installed at least four to 12 inches away from the ceiling. (We usually set them up over the entry to all the bedrooms.)
- Don't install smoke alarms near windows, outside doors or ducts where drafts might interfere with their operation. Don't paint your smoke alarms; paint or other decorations could keep them from working when you most need them.

Tips for keeping your smoke alarms working properly:

Test your smoke alarms at least once a month by using the alarms; "test button." Never use an open-flame devise (such as a BBQ fire igniter) to test the alarm as you could burn yourself or start a fire. If the smoke alarm manufacturer's instructions permit the use of an aerosol smoke product for testing the smoke alarm, only use one that has been listed by a third-party product testing agency, and utilize it in accordance with the product instructions.

- Replace the batteries in your smoke alarms once a year, or as soon as the alarm "chirps," warning that the battery is low.
- Regularly vacuuming or dusting your smoke alarm following manufacturer's instructions can help keep it working properly.
- Replace your smoke alarms once every 10 years.
- Never "borrow" a battery from a smoke alarm.
- Make sure that every one in your home can hear and recognize the sound of the alarm and knows how to react immediately.

Living out in the West County is great, no one disagrees, yet as we visit and tour many cabins on the river we must remind ourselves of how we can become more aware about preventing house fires. Other reminders: Space heaters cannot heat a whole house. Never use a kerosene lamp inside a house. If you see cracks in a chimney on the outside, have it checked out before starting a fire. Lastly candles, while beautiful and used to set mood lighting, have been used as heat sources and resulted in home fires.

Visit the National Fire Prevention Association's website: www.nfpa.org for more information.

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November 6

Keep our TAX MONEY in Forestville where it belongs!

Ask the Loan Man

Hans Bruhner

(707) 887-7950 • hans@hbloans.net

Should You Leverage Your Home or Pay It Down Rapidly?

There is no "1 size fits all" answer to this question. Both of these strategies are designed to help you become debt free, they just go about it in totally different ways. Let's examine the pros and cons of both strategies.

Leveraging Your Property. In order to understand why you'd want to borrow as much as possible for your home purchase, you must first grasp the concept that equity has a zero rate of return. Here's an example:

If Consumer "A" buys a home for $300,000, and puts 20% down, then they have $60,000 in equity. Over the next 5 years, the property appreciates $100,000 in value. Consumer "A" now has $160,000 in equity.

Consumer "B" buys a home for $300,000, and puts no money down. At the end of 5 years, that same home is now worth $400,000. Consumer "B" has $100,000 in equity, which is the same appreciation as Consumer "A"; a net $100,000.

As you can see, your down payment has nothing to do with your rate of return. What becomes important is how you choose to manage the $60,000 you didn't use as a down payment. If you use it for frivolous activities, such as buying toys or going to Las Vegas, it would be more prudent for you to use that money as a down payment. Especially since this might enable you to obtain a lower interest rate.

However, if you were to invest the $60,000 into something that can out-earn the cost of that debt, then this could be a formula for success. This is why some lending professionals suggest putting as little down as you possibly can, maximizing your tax write-off, and investing the rest. The key component is taking the money you would have used as a down payment and creating an asset accumulation account. This account should earn a significant enough rate of return to enable you to pay your mortgage off entirely and achieve the ultimate goal of being debt-free.

Paying Your Home Down Rapidly. Choosing to pay off all of your debt can reduce stress and help you to gain freedom of cash flow for investment opportunities. A 15-year mortgage or a bi-weekly payment strategy provides structure. It can also put you on track to have your mortgage paid off within a set timeframe. Simply put, it contains built-in discipline.

It's important, however, to understand that regardless of how rapidly you pay your home off, you're not getting any greater rate of return on your investment than if you paid it off slowly.

Conclusion. So how does one determine which scenario is best? The choice depends entirely upon the individual. Savvy consumers who are disciplined, and are comfortable taking chances from an investment perspective, would do well with the first scenario. Over the course of time, it's been proven that your rate of return over the long-haul will be far greater than the rate you'd pay for a mortgage in today's rate environment. It's important to seek the advice of a skilled investment advisor to ensure success with this strategy.

The second scenario is best for those who have a difficult time managing their money or who'll sleep easier at night knowing they have a plan in place to pay their loan off more rapidly. Be sure that your budget can handle accelerated payments. When consumers "bite off more than they can chew" with a 15-year mortgage, they frequently end up having to refinance back into a 30-year schedule. I often suggest looking at a 20 year loan as a substitute for the 15 year mortgage, the payments are a lot lower and it is only 5 years longer.

If you find this subject intriguing and would like to know more, I recommend that you read any book by Ric Edelman. He is a financial planner and national speaker. If you would like, drop me an email or call me and I will give you an interview with Douglas Andrew discussing equity myths. Andrew wrote a book called "Missed Fortune 101".

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