

Sub Zero & Subprime

Some terms are easy – sub zero is below zero and everything else is above zero. The temperatures have recently reached sub zero – at least it feels like it. I thought since summer was going on and on and we had virtually no fall we'd miss this winter altogether – no such luck. So much for global warming! As sub zero temperatures upon us we need to think through what is necessary to adjust on our rides. An obvious thing is to make sure you have windshield washer fluid and not water in the squirt container – otherwise you'll have an ice cube in there. If the washer fluid is mixed with leftover water and is too weak it won't freeze until it hits your windshield, then you'll have an opaque icy windshield that may cause you to play bumper cars with something – that's not what you want so be sure to address this. What about those windshield wipers – are they original and in rubber strands? It may be time for a set of winter blades to help keep the ice, salt and sand off of your windshield. Have you checked your antifreeze? What temperature is good to? If not now is the time, well actually last month was the time but better late than never. Tires should be check for air pressure as they tend to get low as the cool weather sets in. While checking those tires how do the treads look? Are there any treads left? If we get some more snow or ice you won't be traveling very far or very fast if you're on slicks. Slicks are great for dry weather, but once water, ice or snow hits' the road you now have skis. If you're ride is four or all wheel drive remember you can go virtually anywhere, but you still can't stop or turn any better than the next person so take it easy!

Financial terms are never this easy and self explanatory – subprime? !@#\\$!@*^(& This summer all the financial news has been on subprime loans and mortgages. Everyone talks about it, but what on earth is subprime? First let's define prime mortgages – mortgages reserved for people with the best credit and good financial status – not too much debt, plenty of income, good savers and stewards of their money. For these people they get the lowest interest rates that are offered in the economy. Today's rates on a 30 year fixed prime loan are around 5.75% - 6.0%. Subprime loans are for those who don't have good credit, tend to be late or don't pay their bills, have too much debt, too little income (perhaps no documented income, they can't prove they have income even if they do), spend more than they earn, and in general aren't the best stewards of the resources they've been entrusted with. For these borrowers, the financial industry in its infinite wisdom has devised a way for them to get loans, which they probably shouldn't have and they call them subprime. These borrowers will pay much more than prime borrowers, depending on how bad their situation is. It's a pretty nice term for a loan that is actually pretty scary. Lending people money that have already proved they aren't doing the right things with their money to buy overpriced homes in a hot real estate market. To be fair most people will pay the loans back, but the media makes it sound like Armageddon is around the corner. Many subprime loans have rates that are much higher than prime – in today's market anywhere from 8.0% - 20% and many of these loans are not fixed, they're adjustable rate and come with prepayment penalties – if you want to pay it off quicker, refinance it or pay down the principal you're penalized for doing so. Some of these loans can actually negative amortize – grow in balance instead of shrink. The real estate market is in turmoil and it'll likely take a few years for it to unwind – If you're in the market for real estate be patient and wait – those who wait will get better values in the years ahead. Now that temperatures are subzero, don't get sucked into a subprime loan! ☺ Michael Chadwick can be reached at (860) 489 8880 or mike@fiscalwisdom.com

Registered Representative, securities offered through Cambridge Investment Research, Inc. a Broker/Dealer, member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Chadwick Financial Advisors and Place Financial Advisors and Cambridge are not affiliated. Opinions expressed may not necessarily be those of Cambridge Investment Research, Inc.

Disclosure: Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results. This information is for educational purposes and should not be construed as individualized investment advice.