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# ORIGINATE FHA LOANS & REGULATORY UPDATE

## The Knowledge Test

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**Dave Hershman**

**OriginationPro**

**A Certified  
Mortgage Advisor  
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## Dave Hershman Top Industry Author and Speaker



- Produced almost 600 transactions in his first 18 months in the industry—including closing 60 in his 12th month;
- Run sales forces for large production organizations;
- Directed the sales force for the largest mortgage technology organization;
- Written seven books in the areas of finance, management, sales & marketing—including two best-sellers published by the MBA;
- Helped found a Federal Bank, serving as a board of director;
- Been a keynote speaker at hundreds of industry events

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# OUR GOALS TODAY

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- History of FHA
- Legislative Update
- FHA eligibility
- Types of transactions-Focus Streamline
- Types of properties financed under FHA
- Types of mortgages offered under FHA
- Costs to obtain an FHA mortgage
- FHA qualification requirements
- FHA forms
- FHA approval requirements
- The Knowledge Test

**And  
Coaching  
—Q&A  
on any  
topic**

# LATEST NEWS ON THE HOUSING FRONT

- Freddie Mac will allow “open access” to Home Affordable Ref Program:
  - Allowing the new refinance mortgage to be assessed through Loan Prospector.
  - Requiring a full interior/exterior appraisal for the new refinance mortgage. Please note that use of Home Value Explorer® point value estimates will not be permitted with the new Relief Refinance Mortgage – Open Access. (AVM Model)
  - Lesser of 4 percent of the new refinance mortgage amount or \$5,000 of closing costs and prepaids to be rolled into the new loan. Cash back may not exceed \$250.
- Rumor has it that Fannie Mae and Freddie Mac may increase allowable 105% LTV for these programs.
- Senate bill introduced to increase tax credit to \$15,000 and extend effective date. Also would expand eligibility to all buyers (not just first time buyers).
- Presidents regulatory agenda: No yield spread premiums, vanilla products and originators paid on loan performance . Now the real battle begins.
- Mortgage Insurance Companies tighten credit again
  - Minimum credit score at 680 for UGIC (720 for brokered loans)
  - MGIC—non-traditional credit limited to 90% LTV
  - Radian will no long insure temporary buydowns and 1% adjustables

# LATEST NEWS ON THE FHA FRONT

- Chairman of MBA testifies before congress and recommends an increase in FHA net worth requirements—to \$150,000 for brokers.
- FHA Tax Credit for Down Payment Summary. ML 2009-15
  - Yes, for downpayment, if it is a secured second mortgage or loan provided by a government entity or non-profit (non-profit can't get money from seller or lender).
  - No, for downpayment if it is advanced by the lender. Can use for closing costs or above 3.5%
- Expanded Energy Efficiency Amounts ML 2009-17
  - The maximum amount of the portion of the EEM for energy improvements is the lesser of 5% of: the value of the property, or 115% of the median area price of a single family dwelling, or 150% of the conforming Freddie Mac limit
  - The cost of effective energy improvements may be added to the base FHA maximum mortgage amount if the cost is less than the Present Value of the energy saved.
- Manufactured housing requirements ML 2009-16
- ML 09-14 On-line FHA Credit Analysis Guide
  - <http://www.fhaoutreach.gov/FHAHandbook/prod/index.asp>

# NEWS ON THE FHA FRONT—CONDOS

- FHA new condo approval process coming October 1 (ML—2009-19)
  - Will include lender delegated review for those with unconditional DE authority. (DELRAP). Can still use HUD review (HRAP)
  - Lists ineligible projects, including condo-tels, multi-dwelling units, time shares, houseboats
  - Project approval not required for single family detached condos (but must include condo rider)
  - Spot loan approval process is eliminated
  - Project approval not required for streamline refinances or HUD owned property sales
  - HUD review: environmental reviews not required if construction is beyond stage that HUD can influence and local jurisdictions have approved. For lender review not required but if appraisal remarks section indicate an environmental condition, it must be mitigated.
  - Project eligibility: no more than 25% commercial; no more than 10% used by one investor; no more than 15 percent in arrears on dues; at least 50% of units must be presold; 50% owner-occupied on sold units; phasing allowed; no more than 30% of units can have FHA insurance; adequate reserves.
  - Manufactured housing units eligible
  - One year waiting period for conversions is eliminated. If being rehabbed—must be 100% complete.
  - Once on approval list, resubmission of project is not required. Lenders may revisit conditions at their discretion.



# SAFE ACT

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- Safe and Fair Enforcement Licensing Act of the Housing and Economic Recovery Act of 2008 signed into law July 30, 2008
- CSBS (Conference of State Bank Supervisors) and AARMR (American Association of Residential Mortgage Regulators) Model State Law
- ✘ Licensed MLOs are originators who were licensed before July 31, 2009 under a state law that was in existence before July 31, 2008. A state must bring these into MLOs into compliance with SAFE by January 1, 2011
- ✘ Non-Licensed MLOs who did not hold a license as of July 31, 2009. Due to exemption from state law, no law in state or were not in the industry. They must be brought into compliance as of July 31, 2010.
- ✘ Each statewide regulatory agency will establish its own deadlines.

# SAFE ACT IMPLEMENTATION PLAN

- × Between 7/31/09 and 7/31/10 Non-licensed MLOs
- × Between 7/31/09 and 1/1/11 Licensed MLOs
- × Criminal history Information record checks—must provide finger prints
- × Credit report checks. Must provide credit authorization
- × National testing of mortgage loan originators—Must pass test by above dates.
  - + Test will include a Federal and State component.
- × Nationally approved pre-licensure and continuing education courses
  - + 20 hours complete by above dates (licensed MLOs exempt if already complete 20 hours of state required)
  - + 8 hours annual continuing ed. Not needed in year license is issued
- × Surety bond/recovery fund requirements. Companies must have based upon total originations or implement a recovery fund. Net worth on mortgage originators or companies not required but can be by state.
- × NMLS&R call reports. (National Mortgage Licensing System & Registry) Annual statement of condition of the company including financial statements and production activities.
- × Public Access: Includes disciplinary and enforcement actions
- × Consumer complaint processing. There will be tracking of complaints

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# HISTORY OF FHA

- Federal Housing Administration authorized by National Housing Act of 1934, a depression-era program
- Depression was the most significant housing crisis in history and caused significant regulation of banks restricting their scope (Glass-Steagall Act)
- Most programs required 20% down
- Grew to one-third of loans in the United States
- Other dominant entity was Savings and Loans (ended during the S&L crisis in late 1980s)
- With Fannie and Freddie and Ginnie Mae—start of the secondary market
- Only “less than 5% down program” even through the 1980s
- Sub-prime boom of last decade caused market share to fall to 2.0%
- FHA is under the Department of Housing and Urban Development (HUD)
- FHA does not make mortgages, but insures mortgages (100% coverage)
- Lenders approve the mortgages—Direct Endorsement—under FHA guidelines

# HOPE FOR HOMEOWNERS—TEMPORARY

- Voluntary program—lenders don't have to participate—and why they won't?
- Lenders must take “hair-cut” to bring loan being refinanced down to @90% to 94% of current value.
- All second mortgages must be eliminated through negotiation—this has changed slightly—but HUD will buy these at pennies on the dollar.
- Program begins October 1, 2008, ends September 30, 2011.
- Must be above 31% Debt income ratio presently (payment is hardship)
- 30 year fixed at 90% of the value of the home, or maximum family can repay, whichever is less (qualification is required). **Now can offer 40 year mortgages**
- Why a bad deal for homeowners vs direct lender modification--
  - Maximum loan amount 132% of conforming (can't use for jumbos over \$550,000)
  - 3.0% up-front MIP, 1.5% monthly
  - Closing costs of new loan
  - Never below market interest rates
  - No seconds allowed for the first five years of the new mortgage
  - Any future appreciation or gained equity shared with FHA—50% to 100%. That could be hundreds of thousands of dollars!

# FHA MODERNIZATION ACT OF 2008

- Increase the FHA loan limit in high cost areas to 150% of conforming (115% of area home limits capped at \$625,500). **\$729,750 per ESA**
- Moving base limits from 95% to 110% of median home prices. (271K)
- Requiring “down payments” of at least 3.5%. Allows loans from family members.
- Restructuring FHA insurance for manufactured homes
- Enhancing counseling requirements
- Improving FHA loss mitigation process
- Enhancing fraud protection—including more screening and more penalties
- Five year test program for alternative credit histories
- Moratorium on risk-based premiums from October 1 for 12 months
- Prohibition of seller assisted DPA—October 1, 2008.
- Single national reverse mortgage limit of \$417,000. Moved to \$625,000 per ESA

# REGULATORY UPDATE

- Newest Mortgagee Letters
  - ML 2009-11 HECM Purchase program clarifications—one property rule;
  - ML 2009-10 Clarification of Counseling for HECMs
  - ML 2009-08 Cash out Refis to 85% (can re-subordinate Seconds)
  - ML 2009-07 Revised high costs limits
  - ML 2008-41 Elimination of FHA Secure Program
  - ML 2008-40—Refinance LTVs—97.75%. 2nd appraisal for cash-out over 85%
  - ML 2008-28—Prohibition of HECM Counseling For Fee
  - ML 2008-25---Borrowers must qualify with mortgages of both properties—to discourage “abandonment.” Exceptions relocation and 25% equity in other property (keep in mind one FHA property rule)
  - ML 2008-23. Downpayment requirements. New standard is 3.5% down (not invested in property) . Giving us until January 1, 2009 to get loans in pipeline closed.
  - ML 2008-15 New Transmittal Form and application addendum
  - ML 2008-11 Non-traditional credit



# REGULATORY UPDATE—CONT'D

- Policy on non-approved brokers—advisory services only, must be on HUD-1 and be paid from applicant's own money (from origination fee on HECMs) and have a separate contract
- Addition of “Streamline K”—up to 35K in discretionary repairs
- Borrowers can pay lender fees
- FHA accepts conventional appraisals
- Up-front MIP required on 203K and Condos for first time
- Eliminates refunds of up-front MIP (except Streamlines)
- Allows cancellation of monthly MIP
- Eliminated PUD approval list
- Added Hybrid ARMs and Libor Index

# FHA ELIGIBILITY

- The Myth---low-to-moderate income only
- The requirement is really set by the loan amount
  - Base 65% of conforming: \$271,050
  - High-cost 150% of conforming \$625,500
  - \$625K is not low-to-moderate income!
  - Temporarily higher limits as well
- Can have only one-loan at one time
- Must have legal status and social security number
- All loans (except Streamline Refis) are full doc (tax returns)
- Insurance always required so not for low LTV
- No seconds to eliminate insurance or go over maximum limits
  - Exception—affordable seconds from a governmental agency
- No declining markets policy

# FHA TRANSACTIONS

- Owner-occupied purchase—no-investors
  - Includes 203K Rehabilitation Mortgages (can be refi also)
- Second homes by hardship exception only
- Refinances
  - Rate and term
  - 85% cash out (just down from 95%)
  - FHA Secure—focused on reset adjustables---just eliminated. HOPE for Homeowners replaces this program.
  - Streamline refinances (can be an investor!)—no doc (no appraisal, employment, deposit, mortgage payment history)—FHA to FHA only
  - Reverse mortgages
- FHA Vet Program – any advantage any more?
- **Assumptions—along with VA, only real assumable loan left**
  - Must qualify, owner occupied, fee is \$500

# FHA STREAMLINE REFI

- Lower rates now—with FHA volume up—FHA streamlines will be an important business line.
- Streamline refis—are FHA to FHA refis with no cash out-max \$500 to borrower
- Documentation Requirements--
  - Loan application (abbreviated version)
  - Previous 12-month mortgage payment history;
  - An appraisal of the property if the new mortgage amount finances the closing costs over and above the existing loan balance;
  - The applicant can keep secondary financing in place without a new appraisal (must be subordinated).
  - Cash to close documentation is not required
- If the property is no longer occupied by the applicant, FHA will allow a streamline refinance
  - Existing balance can be refinanced only (appraisal can't be used).
  - If the mortgage payment history shows delinquencies during the previous 12 months, full documentation processing.
  - No adjustables can be used for Investor Streamlines
  - No adjustment in Mortgage Insurance or rate (lender can charge more, though).

# STREAMLINE ISSUES

- Lenders can increase requirements for FHA Streamline mortgages—including requiring full credit qualifying or an appraisal.
- The applicant should be aware of the fact that the present lender may collect interest until the end of the month when an FHA mortgage is paid off
- If refinancing from a fixed rate on an owner occupied property to an FHA 1-year ARM, the new interest rate must be at least 2% lower than the rate on the existing mortgage.
- If refinancing from an FHA ARM to a fixed rate, the new rate can increase by 2% over the current rate.
- If refinancing to a shorter term a 20.0% increase in payment is allowed.
- From a hybrid ARM to a fixed rate, a 20.0% increase in payment is allowed.
- If the borrower obtained an FHA loan through the FHA Secure program for delinquent mortgages, they are not eligible for a streamline refinance (they can do a full documentation refinance).
- Maximum term is remaining term plus 12 years or 30 years, whichever is less.
- Delinquent loans must be brought current—however, lender can refinance two delinquent payments into the loan amount.
- Individuals can be added to title at the time of refinances, deletions have restrictions
- Only “credit-qualifying “ refinances are available for streamline K program.

# STREAMLINE MIP

- Upfront MIP is 1.5% for all Streamline Refinances
- 20/30 Year: .55% monthly over 95.0% LTV; .50% for 95% and under
- 15 year: .25% monthly over 90% LTV; none for 90% and under
- Can use new appraisal to determine new LTV (or original value)
- Refunds are subtracted from new MIP
- Example:
  - \$90,000 Mortgage
  - \$3,000 Closing costs to be financed
  - \$1,395 New MIP (1.50% of base mortgage amount)
  - (\$ 950) MIP refund from old mortgage
  - \$93,000 Base mortgage amount
  - \$93,445 Mortgage amount including new MIP (\$1,395 - \$950)

# REFUNDS OF MIP

## Upfront Mortgage Insurance Premium Refund Percentages

### Month of Year

Year	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34
3	32	30	28	26	24	22	20	18	16	14	12	10

# TYPES OF PROPERTIES FINANCED

- Single family (fee simple and PUDs). No longer a PUD approval list
- Condos—
  - Approval list
  - 51% owner-occupants for the project (no 90% individual unit owners)
  - Attorney opinion letter
  - Fannie and Freddie now allows FHA approval for their condos
  - FHA does not have area requirements—but lenders might.
- Manufactured homes
  - Not mobile homes
- 2-4 family at higher loan amounts
  - Does not require higher down payments
  - Higher limits-

➤ Two-Unit	\$347,000-\$800K
➤ Three-Unit	\$419,400-\$968K
➤ Four-Unit	\$521,250-\$1.2M



# TYPES OF FHA MORTGAGES

- Traditional Fixed Rate
- Temporary Buy-downs—
  - Maximum 2.0%,
  - Qualify at the note rate
  - May be secondary market premium
- Adjustables—
  - One year with 1/5 caps (qualify at start rate +1% over 95% LTV)
  - 3/1 with 1/5 caps
  - 5/1 with 2% annual caps
- 203K Rehab program—great for Realtors—Fixer-uppers
- Reverse mortgage programs—HECM
  - Receive cash or monthly payment, or combination of both

# COSTS OF AN FHA MORTGAGE

- Mortgage insurance---always! MIP (mortgage insurance premium)
  - Monthly cancellable after five years and 78% LTV (no new appraisal)
  - Up-front refundable only if streamline refinance (3 year schedule)
  - Previously: 1.5% up front/.50% with payment (.25% for 15 year)
  - After July 14, 2008—Risked Based Pricing—ML released
  - After October 1, 2008—RBP Moratorium
  - Upfront after October 1, 2008 is
    - 1.75 for Purchase and full refinances (can be added to loan)
    - Streamline Refis 1.50
    - FHA Secure with delinquencies—3.00 (Now FHA HOPE)
  - Monthly after October 1, 2008 is:
    - 20/30 year .55% over 95% LTV. 50% below
    - 15 year .25% over 90% LTV. 0% below
    - HOPE is 1.5% monthly

# RISK-BASED MIP

FHA Single Family Mortgage Insurance Upfront and Annual Mortgage Insurance Premiums (Loan Terms > 15 years) Effective as of July 14, 2008							
All premiums are specified in basis points (0.01%)							
Decision Credit Score (FICO)							
LTV	850-680	679-640	639-600	599-560	559-500	499-300	NON-TRADITIONAL
≤ 90.00	125/50	125/50	125/50	150/50	175/50	175/50	150/50
90.01-95.00	125/50	125/50	150/50	175/50	200/50	n/a	175/50
> 95	125/55	150/55	175/55	200/55	225 <sup>a</sup> /55	n/a	200/55

a. A first-time homebuyer, with HUD-approved counseling, will pay only 200 basis points for the upfront mortgage insurance premiums.

FHA Single Family Mortgage Insurance Upfront Mortgage and Annual Mortgage Insurance Premiums Loan Terms of 15 Years or Fewer Effective as of July 14, 2008							
All premiums are specified in basis points (0.01%)							
Decision Credit Score (FICO)							
LTV	850-680	679-640	639-600	599-560	559-500	499-300	NON-TRADITIONAL
≤ 90.00	100/0	100/0	125/0	150/0	175/0	175/0	150/0
90.01-95.00	100/25	125/25	150/25	175/25	200/25	n/a	175/25
> 95	125/25	150/25	175/25	200/25	200/25	n/a	200/25

# QUALIFICATION REQUIREMENTS

- FHA sets “minimum” standards—lenders can be tighter
- Income
  - Ratios—31/43 (33/45 for energy efficient homes)
  - Can use non-owner-occupied co-borrowers—related or family type relationship (not for non-traditional credit)
- Credit
  - No minimum credit score (500 over 90% LTV)-lenders can be tighter
  - Accepts non-traditional credit (no credit score)
- Cash—3.5% of “own” money for downpayment
  - Cannot use 2nds to eliminate MIP or lower cash needed (except from government)
  - No cash reserves (except for non-traditional credit and 2-4 family)
  - 100% gifts allowed from family members or family “type” relationships
  - 6.0% seller contributions with minimum down!
  - Down-payment assistance from government or “non-profit”
    - IRS changed definition.
    - Seller-Assisted eliminated—Congress involvement—will they reverse decision?

# FHA FORMS

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- New Form: Underwriting and Transmittal Summary HUD-92900-LT
  - Replaces Mortgage Credit Analysis Worksheet (MCAW) effective October 1, 2008
- Updated Form: Addendum to URLA HUD-92900-A (minor revisions)
- Assumption Disclosure
- Consumer Choice Disclosure—compares to conventional loan, plus insurance disclosure
- Home Inspection Rights Disclosure (\$200 can be financed)
- Important Notice to Homebuyer—rates and points, mortgage insurance, prepayment, fraud, property condition
- Lead Paint Notice-before 1978
- Request for Certificate of Vet Status
- Statement of Value—HUD does not warrant condition of the property
- HUD-1 Addendum

# DISADVANTAGES OF FHA

- Owner-occupied only (except Streamline Refis)
- Mortgage insurance even with 20% down.
- Can't use seconds to get over maximum loan amount or eliminate insurance
- Brokers must get FHA approved—\$65,000 net worth
- Lower loan amounts than conforming in low-cost areas

# FHA APPROVAL REQUIREMENTS

- You must be approved to do FHA loans and cannot be paid to accomplish any origination activities if not approved.
- Those who are paid must be W-2 and not have any other employment or self-employment in real estate related activities
- Net branches—corporate must pay for all expenses.
- Approval types—supervised (banks), non-supervised (mortgage companies) and non-supervised loan correspondents (brokers sponsored by approved entities that also underwrite and fund brokers sponsored)
- Direct Endorsement approval (DE) allows supervised or non-supervised entities to underwrite and submit for insurance without FHA underwriting the files.
- Entity must be a corporation or partnership---no sole-proprietors
- Net worth requirements: 250K for lenders; 65K and 25k for each branch for brokers
- Audited financial statements are presently required
- Obviously FHA is presently swamped with applications!

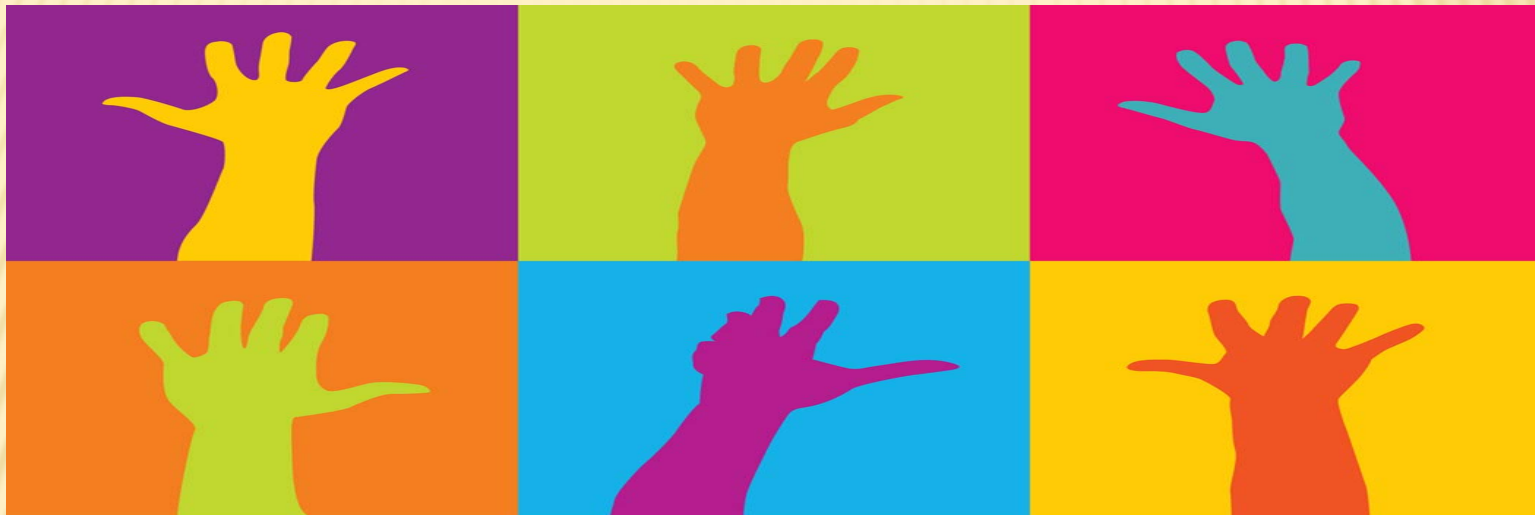
# BORROWER ELIGIBILITY

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- A. FHA will accept either an Individual Tax Identification Number (ITIN) or a Social Security Number (SSN).
- B. Only an occupying borrower is required to have a SSN.
- C. All borrowers must have a SSN. An ITIN is never acceptable.



# BORROWER ELIGIBILITY



And the  
answer is...

**C.** All borrowers must have a SSN. An ITIN is never acceptable.

# BORROWER ELIGIBILITY

True or false?



FHA borrowers must be U.S. citizens.

# BORROWER ELIGIBILITY

False. Citizenship is not a requirement.



But, they must be legal residents of the U.S.

# BORROWER ELIGIBILITY

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## Non-Occupying Co-Borrowers must be...

- ✘ Related by blood or marriage; or
- ✘ Have a longstanding relationship not arising out of the loan transaction.
- ✘ Otherwise, maximum LTV is limited to 75% of value.

# BORROWER ELIGIBILITY

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- ✘ At least one borrower must be an occupant.
- ✘ No maximum age for borrower.
- ✘ Minimum age is minimum legal age in that state at which a Note can be enforced.
- ✘ No income limits. Minimum income required is that necessary to qualify for payments.

# BORROWER ELIGIBILITY

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- ✘ The property must be the primary borrower's principal residence that is occupied by the borrower for the majority of the year.
- ✘ Borrower expected to take occupancy within 60 days and reside there for at least 1 year.
- ✘ Borrowers may have only one FHA mortgage at a time unless...

# BORROWER ELIGIBILITY

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## Exceptions to one FHA loan at a time policy

- ✘ Borrower is relocating outside the commuting area.
- ✘ Borrower's family increases in size.
- ✘ One borrower is vacating a jointly-owned property.
- ✘ Non-occupying co-borrowers.

# AUTOMATED UNDERWRITING

---

- ✘ FHA does not have its own AUS. Lenders use Fannie Mae's DU, Freddie Mac's LP, or other systems.
- ✘ Within AUS, FHA loans are scored against FHA's scorecard (an algorithm developed to predict risk) called TOTAL.
- ✘ All FHA loans except streamline refinances must be scored through an Automated Underwriting System (AUS).



# AUTOMATED UNDERWRITING

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- ✘ TOTAL scoring recommendation based on 5 factors:
  - FICO score.
  - Front ratio (PITI/monthly income).
  - LTV.
  - Mortgage Term.
  - Reserves.

# AUTOMATED UNDERWRITING

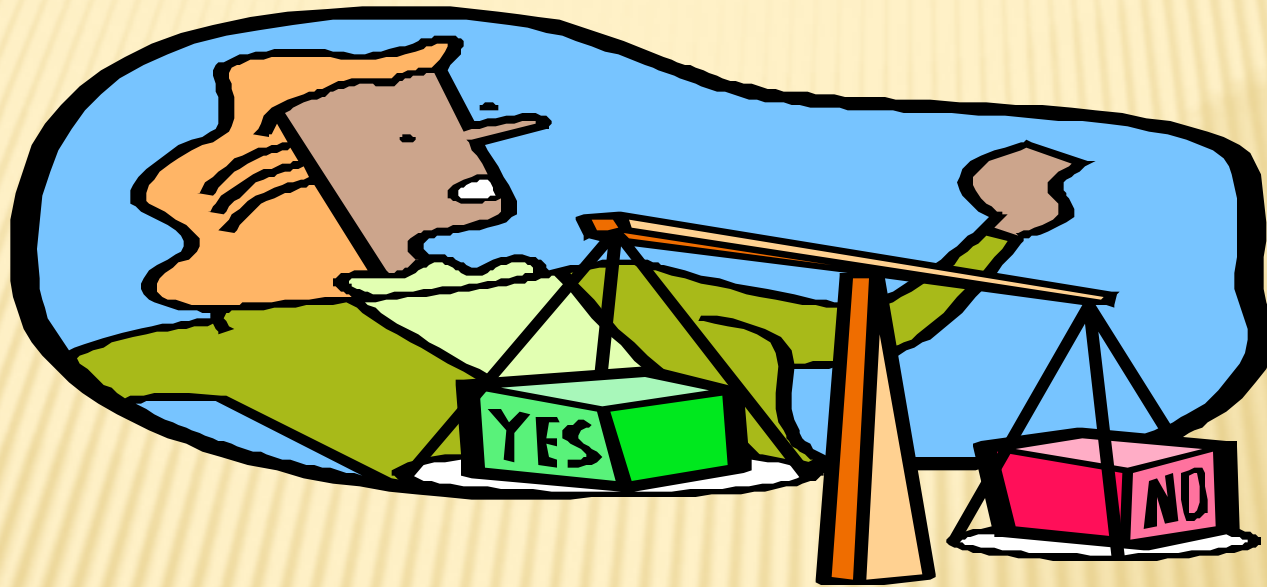
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Question:



Is a refer score is a valid basis for rejecting a borrower.

# AUTOMATED UNDERWRITING



No. A Refer means only that the loan must be underwritten manually. It cannot be rejected for this reason.

# MANUAL UNDERWRITING

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## Credit

- ✘ No minimum credit score.
- ✘ Credit pattern more important than single incidents. Payment history for previous mortgage or rent most important.
- ✘ Explanations required for significant credit problems, late payments, inquiries within the last 90 days.
- ✘ Non-traditional credit okay.

# MANUAL UNDERWRITING

---

## Credit

- ✘ No minimum credit score.
- ✘ Credit pattern more important than single incidents. Payment history for previous mortgage or rent most important.
- ✘ Explanations required for significant credit problems, late payments, inquiries within the last 90 days.
- ✘ Non-traditional credit okay.

# MANUAL UNDERWRITING

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## Credit

If bankruptcy on record, must have re-established credit and

- ✘ Chapter 7 – 2 years must have passed since discharge, 1 year if bankruptcy due to circumstances beyond borrower's control.
- ✘ Chapter 13 – 1 year successful payments under plan and permission of court.

# MANUAL UNDERWRITING

---

## Credit

If a foreclosure is on record, borrower is not eligible for three years unless

- ✘ Non-FHA Foreclosure. There are documented extenuating circumstances.
- ✘ FHA Foreclosure. Property was included in bankruptcy, or divorce with ex responsible for payments, or assumption.

# MANUAL UNDERWRITING

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## Employment/Income Documentation

- ✘ To document self-employment, borrower must submit tax returns for last two years.
- ✘ Where borrower has been self-employed less than two years, borrower must document that self-employment is in the same field as previous employment.



# MANUAL UNDERWRITING

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## Employment/Income Documentation

- ✘ If tax returns are required, borrower must provide signed IRS Form 4506, IRS Form 8821, or whatever else is required to obtain tax returns from the IRS.

# MANUAL UNDERWRITING

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## Qualifying Ratios

- ✘ 31% and 43% ratios are guidelines only, not maximum ratios.
- ✘ Where exceeded, underwriter must cite at least one compensating factor.
- ✘ Compensating factors include reserves, large down payment, minimal increase in housing expense, potential for higher income and others.

# MANUAL UNDERWRITING

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## Reserves

- ✘ Reserves are an important factor in the TOTAL Scorecard and may be used as a compensating factor on manually underwritten cases.
- ✘ Reserves are not required except for ...
  - 3-4 unit properties (3 months PITI).
  - Insufficient credit borrowers (2 months PITI).

# MANUAL UNDERWRITING

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## What Is Non-Traditional Credit?

- × **ML 08-11.**
- × Refers to borrowers with a credit history insufficient to generate a credit score through Equifax, Experian or TransUnion.
- × New policy establishes two categories of non-traditional credit references, and two categories of borrowers.

# MANUAL UNDERWRITING

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## Group 1 Non-Traditional Credit References

- ✘ Rental housing payments.
- ✘ Utility payments (gas, electric, water).
- ✘ Land-line telephone.
- ✘ Cable TV.

# MANUAL UNDERWRITING

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## Group 2 Non-Traditional Credit References

- ✘ Insurance (medical, auto, life, renter's).
- ✘ Child care.
- ✘ Retail stores, including rent-to-own.
- ✘ Internet/cell phone.
- ✘ Personal loans/auto leases.
- ✘ History of savings.

# APPRAISALS

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## Repairs

- ✘ No repairs required for minor items or deferred maintenance.
- ✘ Standard tests not automatically required.
- ✘ Appraiser reports all property conditions, even minor ones.

# APPRAISALS

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## Repairs

- ✘ Repairs required only for:
  - Major health and safety items.
  - Structural problems.
  - Cracked, peeling paint on pre-1978 homes.
  
- ✘ Repairs must be normally completed before closing.



# APPRAISALS

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## Examples of Conditions That Would Not Normally Require Repairs

- ✘ Missing handrails.
- ✘ Cracked windows.
- ✘ Minor plumbing leaks.
- ✘ Worn flooring or carpet.
- ✘ Cracked sidewalks.

# APPRAISALS

---

Examples of tests that are no longer mandatory.

- ✘ Wood-destroying insects/organisms.
- ✘ Well water.
- ✘ Septic systems.
- ✘ Flat or unobservable roof.

# APPRAISALS

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Examples of conditions warranting further inspection.

- ✘ Standing water against the foundation and/or excessively damp basements.
- ✘ Hazardous materials on site or within the improvements.
- ✘ Faulty , defective or inoperative systems.
- ✘ Evidence of possible structural problems (settlement, bulging walls, etc.).

# APPRAISALS

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## Declining Markets

- × **ML 07-11, ML 08-09, ML 09-08, ML 09-09.**
- × FHA does not define this term.
- × FHA has not established a list of areas that it considers to be declining.
- × FHA has no special down payment, mortgage insurance, or underwriting requirements for properties in an areas with declining values.

# APPRAISALS

---

## Declining Markets

When is a second appraisal required?

- ✘ Loan amount excluding UFMIP will exceed \$417,000; and
- ✘ The LTV equals or exceeds 95% (or loan is cash-out); and
- ✘ Property is determined to be in a declining market.

# APPRAISALS

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## Declining Markets

### Second Appraisals

- ✘ If property is a one unit single family home, appraiser may perform exterior-only appraisal using Fannie Mae Form 2055.
- ✘ For 2-4 unit properties, appraiser must perform full appraisal using the appropriate Fannie Mae form.

# PURCHASE LOANS

---

## Minimum Cash Investment

- × **ML 08-23.**
- × Under HERA, minimum cash investment = 3.5% of lesser of sales price or appraised value.
- × Minimum cash investment is down payment only. Neither closing costs nor prepaids paid by borrower count towards 3.5% minimum cash investment.

# FHA PURCHASE LOANS

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## Seller Contributions

- ✘ Seller (or other “interested party”) may contribute up to 6% of sales price toward borrower’s closing costs and prepaids.
- ✘ Seller may not contribute to borrower’s minimum cash investment.



# FHA PURCHASE LOANS

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## Acceptable Sources of Borrower's Cash Investment

- ✘ Borrower's own savings
- ✘ A gift from a relative, employer or union.
- ✘ A gift, grant or secondary financing from state and local government programs.
- ✘ A gift from non-profit organizations not connected to an interested party.

# FHA PURCHASE LOANS

---

## Acceptable Sources of Borrower's Cash Investment

- ✘ Bridal Registry
  - Mortgagee Letter 96-56
  - Lenders sets up bank account into which fiends and relatives may deposit cash gifts.
- ✘ Sweat Equity (on new construction cases).

# FHA PURCHASE LOANS

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## Unacceptable Source of Borrower's Cash Investment

*In no case shall the funds required...consist, in whole or in part, of funds provided by any of the following parties before, during, or after closing of the property sale:*

- (i) The seller or any other person or entity that financially benefits from the transaction.*
- (ii) Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in clause (i).*

# RATE AND TERM REFINANCES

- × **ML 08-23, 08-40.**
- × Any non-FHA or FHA loan can be refinanced.  
No seasoning requirement.
- × Full credit-qualifying.
- × Existing loan must be current for the month due.
- × Full appraisal. Repairs required by the lender must be completed.

# RATE AND TERM REFINANCES

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- ✘ Existing subordinate financing may remain in place behind the FHA mortgage.
- ✘ New subordinate financing may be placed behind the FHA mortgage.
- ✘ No CLTV restrictions on new existing subordinate financing.
- ✘ Cash back to the borrower at closing may not exceed \$500.

# FHA REHABILITATION PROGRAM

## What is Section 203k?

- ✘ One loan to finance both acquisition and rehab of a property.
- ✘ Mortgage amount is based on projected value of the property with the work completed.
- ✘ Repair escrow account created and repairs completed after closing.

# FHA REHABILITATION PROGRAM

## Eligible Uses

- ✘ To purchase a home and rehab it.
- ✘ To refinance a mortgage and rehab a home.
- ✘ To purchase a home on another site, move it onto a new foundation, and rehab it.
- ✘ Mortgage calculation worksheet available at <http://www.hud.gov/offices/hsg/sfh/trn/training.cfm>

# FHA REHABILITATION PROGRAM

## Regular Section 203k

- ✘ Minimum repairs of \$5,000. No maximum on repairs.
- ✘ Must use 203k Consultant to prepare detailed work write-up and to conduct inspections of work.
- ✘ Few limitations on the type of repairs.



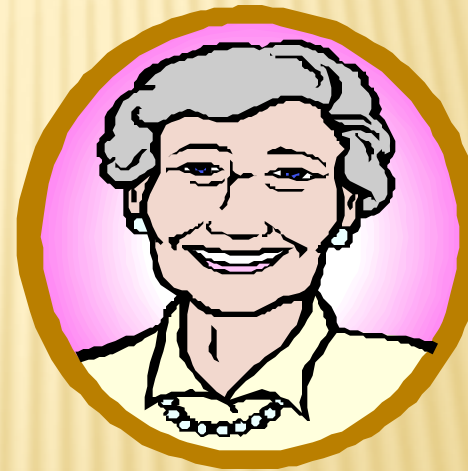
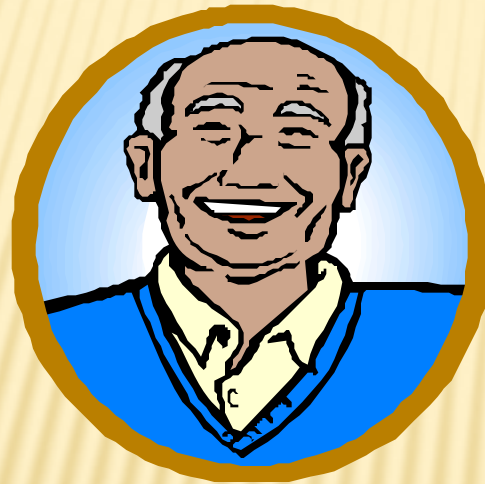
# FHA REHABILITATION PROGRAM

## Streamline 203k

- × **ML 05-50.**
- × No minimum amount of repairs. Maximum repairs of \$35,000.
- × 203k Consultant not required.
- × If repair amount under \$15,000 no 3<sup>rd</sup> party inspections required.
- × No additions or structural repairs.

# FHA REVERSE MORTGAGE PROGRAM

FHA has a special program for senior citizens who own their home.



# FHA REVERSE MORTGAGE PROGRAM

## Home Equity Conversion Mortgage (HECM)

- ✘ Allows seniors to tap into the equity in their homes.
- ✘ No payment is ever required of borrower. Borrower can never be forced from home, or forced to sell.
- ✘ Only after borrower dies or permanently moves must loan be satisfied.

# FHA REVERSE MORTGAGE PROGRAM

## HECM Eligibility and Qualifying

- ✘ All borrowers must be at least 62 years old.
- ✘ No credit underwriting. Amount of loan calculated through a formula using the age of the youngest borrower, the value of the home, interest rate and anticipated appreciation.
- ✘ Rather than a mortgage amount, HECMs are based on maximum claim amounts.

# FHA REVERSE MORTGAGE PROGRAM

## Ways To Receive Loan Proceeds

- × Lump sum.
- × Line of Credit.
- × Regular monthly payments to borrower.
- × Combination of these.

# FHA REVERSE MORTGAGE PROGRAM

## Housing Counseling

- × **ML 08-12, ML 08-28, ML 09-10.**
- × Borrowers must receive housing counseling before a loan application can be taken.
- × Borrowers may be charged by agencies for counseling. Fee may be paid out of loan proceeds if borrower agrees.

# FHA REVERSE MORTGAGE PROGRAM

## Housing Counseling

- ✘ Lenders may not pay for HECM counseling, either directly or indirectly.
- ✘ Lenders must provide prospective applicants with a list of at least 10 counseling agencies.
- ✘ List must include five local agencies, and five national agencies.

# ENERGY EFFICIENT MORTGAGES

## What Is an Energy-Efficient Mortgage?

- ✘ A mortgage which includes improvements to save energy.
- ✘ A borrower can finance into an already approved FHA loan, 100% of the cost of eligible cost-effective energy improvements.



# ENERGY EFFICIENT MORTGAGES

- ✘ No additional borrower qualifying or appraisal.
- ✘ 5% of property value (not to exceed \$8,000) or \$4,000, whichever is greater, can be added onto the approved mortgage amount to cover the cost.
- ✘ Improvements where the value of the energy saved is MORE than the cost of the energy improvements (including maintenance) qualify.

# ENERGY EFFICIENT MORTGAGES

## Energy Improvements

- ✘ A combination of energy improvements that are cost effective.
- ✘ A qualified rater uses a tool known as a Home Energy Rating System (HERS).
- ✘ HERS report outlines improvements, costs and energy savings.
- ✘ All improvements must be completed.

# MARKETING FHA MORTGAGES

- The programs are the key—pick your niche!
- Niche rule—don't pick the “best” niche—which niche will best serve your sphere?
  - Those in trouble—FHA secure refinances (now FHA HOPE)
  - The easy refinance—FHA streamline (more FHA loans means more streamlines)
  - Those who need cash—85% refinances
  - Jumbos—temporary higher limits
  - Less than 5.0% down—first time homebuyers
    - Historically FHA's strong-point
  - Reverse Mortgages: Seniors
  - 203K—rehab mortgages ---fixer uppers—Realtor involvement
  - Streamline K

# DELIVERING VALUE TO SPHERE..

- First-time buyers—how are you helping put them in position?
- Did you know the average buyer takes up to two years to move ahead? How are you going to stay with them for that time?
- Answer: Long-term value

# FINANCIAL DESTINATION

## *FDI—A Comprehensive Solution to Risk-Based Premiums And getting transactions to happen*

- Professional credit restoration improvement—not a bandaid
- Debt reduction plan
- Unlimited budgeting and other financial advice (such as the tax benefits of owning) from CFPs and CPAs
- ✘ Cost? Less than most charge just for credit services. \$59 monthly. \$15 to join. No long-term obligation.
- ✘ Even better—when you join as a rep—you get \$20 monthly for each client that participates! (rep cost a one time fee of as little as \$99 in addition to joining as a member) Note: You can refer your clients without joining.
- ✘ More information: [www.hershmanfinancialgroup.com](http://www.hershmanfinancialgroup.com)
- ✘ 24/7 Webinar: <http://fdi.OriginationPro.com/>
- ✘ Live Webinar tomorrow (Thursday). [www.OriginationPro.com](http://www.OriginationPro.com)

# WHY NEWSLETTERPRO?

- Written by the industry expert for over 20 years—to make you look like an expert but not be over the head of your readers. No recipes or bond charts.
- Unlimited use for one price so that you can market your entire sphere—previous customers, prospects, Realtors, top-level partners
- Print & HTML pieces that are easy to personalize. More than a newsletter—
  - Sales and real estate/finance articles
  - Bonus flyers and letters
- Response mechanisms to make the phone ring.
- Coaching and Training by Dave Hershman (CMA certification)
- Only \$39 monthly for both NewsletterPro & the CMA training program with no long-term obligation.
- Need mail or email fulfillment system? You can upgrade to the VELMA personal marketing assistant—cost \$69 monthly
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- **Soon to come: Financial Version**

# WHY NEWSLETTERPRO?

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for one low price!



# FIRST

# Log In

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MARKETING SYSTEM

Login to your NewsletterPro account

Username: (case sensitive)

Password: (case sensitive)

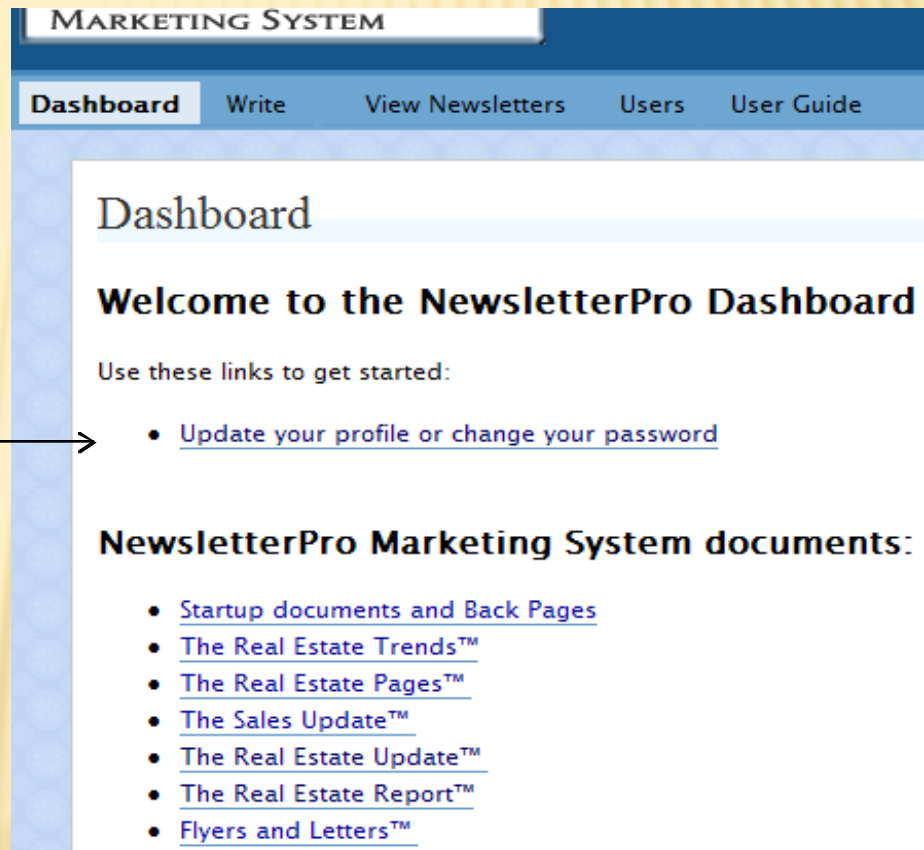
Remember me

[Lost your password?](#)



# THEN...

Go to  
Update  
Profile



# STEP ONE

## Update Your

- Name
- Contact Info
- Personal Paragraph
- Address Block

**About yourself**

Username: (no editing)  
admin

First name:  
Dave

Last name:  
Hershman

Display name on your newsletter as:  
Dave Hershman

Enter your personal co-branded text here to be displayed (in addition to your contact and address information) in your personalized section of each newsletter:

OriginationPro Mortgage Company is dedicated to bringing the American Dream of Home Ownership to our clients.

We provide a variety of competitively priced mortgage products and services that are designed to help you achieve your financial goals.

As the experts in the world of real estate

**Contact Info**

E-mail: (required)  
davehershman@verizon.net

2nd E-mail: (can be the same as above; this is the "reply-to" email for unsubscribing)  
dave@hershmangroup.com

Phone 1: (111) 222 - 3333

Phone 2: (222) 333 - 4444

Company:  
The Hershman Group

**Update Your Contact / Address block**

This information is mandatory for CAN-SPAM email laws:

Address 1: PO Box 932

Address 2:

City: Centreville

State: VA

Zip: 20122

# STEP ONE—PART TWO

On same page you can update your:

- Disclosure
- Choose calculator links
- Change your password

Don't Forget To Hit "Update Profile" Button

The screenshot shows a user profile update interface with three main sections:

- Disclosure:** A text area with the instruction "Enter any disclosures that your state and/or licensing status may require. If you require no special disclosures, then leave this field blank." The text area contains "Licensed mortgage company in the states of MD, DC and VA".
- Mortgage Calculator Links:** A section with the instruction "Pick the display order and number of calculators that you want displayed in your right-hand navigation bar." It contains three dropdown menus:
  - Link 1: Calculate a mortgage payment
  - Link 2: Compare the cost of owning versus renting
  - Link 3: Lower your payments through debt consolidation
- Update Your Password:** A section with the instruction "If you would like to change your password type a new one twice below. Otherwise leave this blank." It contains two password input fields labeled "New Password:" and "Type it one more time:".

At the bottom right of the form is a button labeled "Update Profile »".

# STEP TWO

After you update your profile, you can then download your company logo—

- Click on “Company Logo” on profile page
- Locate your logo on your hard drive to upload
- Click “Upload File”
- Make sure your logo is no larger than size specified



You can upload your company logo with the extension of .jpg, or .jpeg <br/> pixels in width.

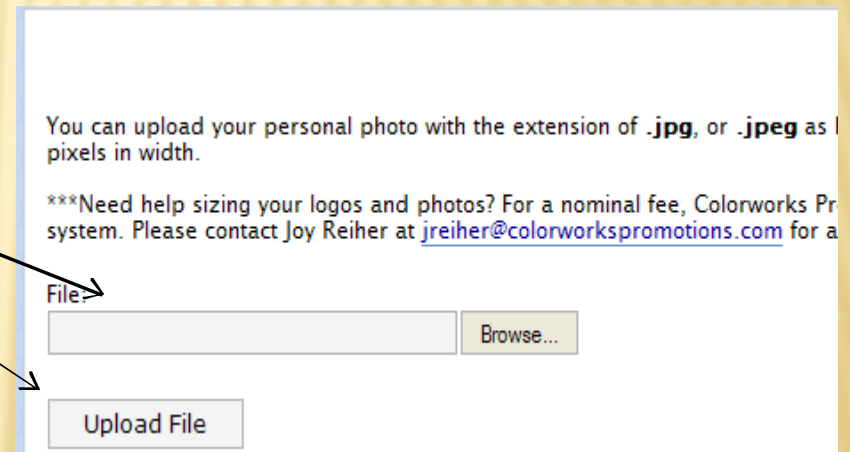
\*\*\*Need help sizing your logos and photos? For a nominal fee, Colorwork <br/> system. Please contact Joy Reiher at [jreiher@colorworkspromotions.com](mailto:jreiher@colorworkspromotions.com) f

File:

# STEP THREE

Back to the Profile Page you can now download your picture

- Click on “Personal Photo”
- Locate the photo on your hard drive
- Click on “Upload File”
- Make sure the photo is no larger than size specified



# AS EASY AS 1-2-3: YOU ARE SET UP

## REAL ESTATE REPORT



May 19, 2009

### ECONOMIC COMMENTARY



*Has the market gotten ahead of itself?*

The stock market has rallied for over two months, oil prices have risen and long-term rates have gone up as well. It is not surprising that the markets have paused to take a breather. Yes, the reports were fairly negative this past week with higher jobless claims and slower than expected retail sales. Even the good news, slow consumer inflation, is indicative of a slower economy. But the markets have been reacting positively through a lot of negative economic news. Why pause now?

It would not be out of the question to view this period as a breather or period of consolidation. The markets are not likely to turn back down unless there are some really surprising negative statistics. We don't rule that out. For now, the breather and lower rates are a great opportunity for homeowners and consumers to take advantage of what might be the last chance to obtain the lowest rates of our generation. At this point rates on home loans have stayed steady despite higher rates on Treasuries and that can't last forever.

### WEEKLY INTEREST RATE OVERVIEW



*The Markets:* Rates on home loans were fairly stable last week. Freddie Mac announced that for the week ending May 14, 30-year fixed rates averaged 4.88%, up slightly from 4.84% the week before. The average for 15-year rose slightly to 4.52%. Adjustables were lower with the average for one-year adjustables decreasing slightly to 4.71% and five-year adjustables falling to 4.82%. A year ago 30-year fixed rates were at 6.01%. "Fixed-rate mortgages were little changed this week following the release of April's employment figures," said Frank Nothaft, Freddie Mac vice president and chief economist. "The economy lost 539,000 jobs, less than the monthly job loss of the past five months, and the unemployment rate rose to 8.9 percent. Adjustables, however, fell slightly over the period. Relatively low house prices and rates are clearly helping first-time homebuyers. Housing affordability for the median first-time buyer reached an all-time record high in the first quarter since the NAR index began in 1991. Consequently, first-time homebuyers accounted for half of existing home sales in the first three months of this year, the NAR reported."



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[Calculate a mortgage payment](#)  
[Compare the cost of owning versus renting](#)  
[Lower your payments through debt consolidation](#)

# BUT THAT IS NOT ALL...

- The main page/dashboard also gives you access to all print materials, including archives
- Each document has a version in Microsoft Publisher. If you have that program (part of Office Professional)—you can edit in any way. These then can be turned into PDFs or included in an email.
- Each document also has a “PDF” version which allows you to add your name in the box. The PDF version can be mailed or emailed as an attachment.
- **VELMA will help you automatically personalize the 4-page newsletter**

## Dashboard

### Welcome to the NewsletterPro Dashboard

Use these links to get started:

- [Update your profile or change your password](#)

### NewsletterPro Marketing System documents:

- [Startup documents and Back Pages](#)
- [The Real Estate Trends™](#)
- [The Real Estate Pages™](#)
- [The Sales Update™](#)
- [The Real Estate Update™](#)
- [The Real Estate Report™](#)
- [Flyers and Letters™](#)

# START-UP DOCUMENTS

The start-up documents include—

- A sample welcome letter to your newsletter prospects;
- Instructions to add a banner to your Outlook Signature so that those you email can sign up;
- Back Pages. These help turn the one-page documents into self-mailers.

## Start-up documents:

[Welcome Letter For Real Estate Newsletter](#)

[Letter To Prospect](#)

[Outlook Signature File and Installation Instructions](#)

(These documents allow you to configure your email signature in Outlook and encourage additional opt-ins to your program)

## Back Pages:

[Back Page #1 for Letter Size Newsletters](#)

[Back Page #1 for Letter Size Newsletters - Publisher Version](#)

[Back Page #2 for Letter Size Newsletters](#)

[Back Page #2 for Letter Size Newsletter Publisher Version](#)

[Back Page #1 for Legal Size Newsletters](#)

[Back Page #1 for Legal Size Newsletters Publisher Version](#)



# THE REAL ESTATE UPDATE

- ✘ Four page document
- ✘ Traditional self-mailer newsletter
- ✘ For all parts of your sphere
- ✘ Industry news, economic commentary, charts
- ✘ Includes finance article

**REAL ESTATE UPDATE**  
Volume 2 Issue 9 September 2008

**THIS NEWSLETTER IS BROUGHT TO YOU BY:**  
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- Residential Refinances
- Commercial Properties
- Home Equity Loans

**Three Trends Worth Watching**

There is no doubt the direction of interest rates has a significant bearing upon how quickly the real estate market will rebound. Lower rates provide refinancing opportunities for loans that are reaching maturity. Low rates also help first-time homebuyers get into homes. So the quest for the "what direction are rates going?" Many analysts feel that rates are going up because of the pressure of inflation. One thing we are not going to do is speculate or predict what will happen in the future. However, we do watch the trends and these trends are important... Oil prices. The mercuro rise in oil prices has been the ultimate spark that has ignited inflation. It starts to reason that the recent dip-in-oil prices will help ease inflationary pressures. We speculated!

**Did You Know...**

Existing home sales rose from the first quarter in 13 states (up) from buyers responding to discounted home prices according to the latest quarterly survey by the National Association of Realtors. (Nearly one-quarter of metropolitan areas showed rising home prices in the second quarter from a year ago. In the second quarter, 35 out of 150 metropolitan statistical areas showed gains in median existing single-family home prices from the second quarter of last year, while 118 had price declines. "The biggest home-sales gains over the previous quarter have been in some of the markets with the steepest and steepest price drops," NAP Chief Economist Lawrence Yun said.

**Selected Interest Rates**  
August 14, 2008

30 Year Mortgages	6.52%
2008 High (July 23)	6.52%
2008 Low (Jan 26)	5.46%
15 Year Mortgages	6.07%
5/1 Hybrid ARMs	6.03%
1 Year Adjustable	5.18%
10 Year Treasuries	3.85%

Source: First Reserve, Freddie Mac.

Note: Average rates do not include fees and points. Information is provided for tracking trends only and should not be used for comparison purposes.

**In This Issue**

P2 Update Housing Legislation | P2 Sell Your Home In Any Market  
P3 A Year of Job Pain | P4 Unmarried Couple as Force

# THE SALES UPDATE

- ✘ It is not enough to distribute news, you must teach your B-to-B targets how to sell which is the ultimate value
- ✘ Realtors, financial planners, CPAs, title companies, insurance agents
- ✘ Designed as great sales meeting material for presentations



**THE SALES UPDATE**  
FOR TODAY'S SALES PROFESSIONAL AND ENTREPRENEUR April 2008

**Make Your Business Cycle Proof—Part Two**  
**IMPLEMENTING THE 100% MODEL**

**L**ast month we discussed the advantages of having a greater portion of your equity guaranteed if you are a professional related to the real estate industry, only 10% of the population is considering a transaction at any one time. However, if you are that 10%, it sure is a much greater percentage of the population, you have the ability to make your business cycle proof. In this case we meet a great example from those performing an outstanding job—Dr. Bruce White (right) for making a business loan more reliable in a few years or providing their first home in the next five years.

Certainly, financial leaders have changed the rules during the recent credit crisis. The largest growing segment of your sphere is one group of those who aren't qualified to purchase or even refinance if they already own. We estimate that approximately 20 and 40 percent of the population falls into this category because of a variety of reasons that are listed below:

- Credit scores are too low;
- Debt-to-income too high;
- Income levels are too low.

The next question is—how do we serve these people? We typically look at the best way we can to ensure a transaction in the next month and trying to apply "band-aids" to get them approved if needed, we need to take a longer-term view of that situation. What we typically do is find those who want to purchase and help them determine that credit score they pay off additional even obtain a raise. Of course, three years later when they want to purchase again or refinance they are back in the same situation. Actually, many are in reverse steps if lenders have a big headache or home values have gone down during the last five years. Research has shown that an investment of purchasing a home for 3 years or more. This is not a decision that comes overnight. Getting their finances in shape should be a long-term endeavor—

One's success should be proportional to the long-term. It usually means more work at that credit report when they are going to make a purchase on a home or car. By that time, the damage may be too severe. Today not only do mortgage lenders—charging more for low credit scores, but are more strict on employment and credit. Dealers are starting to run reports before they accept a loan. A few credit scores and a person has declined the number of offers on the market over a lifetime. And usually, it is the person who can't afford to pay this extra thing.

What assessment need to do is get with someone who will help them optimize their credit in the long run. Usually, we need to make sure every financial decision based upon what affect the decision will have on our credit score. This might mean equipping or extending credit on a credit card or doing a line of credit which is not in use. It may mean challenging something on the report which is false or perhaps not placed on the report in accordance with applicable laws.

We are not saying that if you serve the real estate industry, we say you should become a credit monitoring service. But there are services that exist that not only report credit, but help keep that credit optimized in the long run.

Don't take a long-term view. Paying off a debt to get someone's finances in line to qualify for a loan is one thing. Helping a person who is struggling to debt because completely debt free is a much better and more rewarding proposition.

The average person isn't thinking it debt as we are for digital, cell, email offers and even how you can be home or pay your bills over the past few years.



I think a 3-year term is the solution and it will take a 3-year term to navigate the very best. Being open and allowing someone to make a decision, however, those who study off their own credit situation and are more a 3-year term from the goal of business—saving and achieving for the American dream.

Once again, there are services that will help someone optimize their credit and pay them off more quickly. These may include equity modification if they own a home or general debt reduction if they don't own a home. Debt consolidation may be required in certain situations, but not always.

The same situation is a bit more difficult to deal with, however, there are a number of services that make sure to help several years down the road. In the past, lenders let those who were self-employed go with "stated income." This option is much more limited now—especially for those with lower credit scores and a smaller down payment. Many will have to work with an accountant to get their returns in order and others may have the final say to increase their income, even if it means some paper shuffling situations.

Final thought for services to address these situations for your clients? Invested in serving a greater portion of your prospects and where is general? Talk to your collaborator to share some ideas. For finding with loans and perhaps a referral for service providers who can help your clients. **Q**

**"You may have to fight a battle more than once to win it!"**  
*—Margaret Thatcher*

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98

# THE REAL ESTATE PAGE

- ✘ Consumer articles on finance and real estate topics
- ✘ Can be used for prospect conversions when topic is right (archives become important)
- ✘ Can give to Realtors and Financial Planners to send to their clients—leverage.
- ✘ Can use as response mechanisms



## SHOULD I BUY THIS HOUSE?

**I**n the past two months we have talked about the issues of qualification and affordability while we try to answer the question—should I buy this home. This month we will talk about the issue of affordability in regard to a prospective home purchase. Before this point, all of our analysis has focused upon the area of finances. Certainly there are financial aspects of suitability, but there are also other “non-financial” questions with regard to suitability. For example,

❑ Is this home in the right location? Location may be important with regard to commuting to jobs and activities. With higher energy costs and increased traffic in urban areas, commuting takes on a higher level of significance.

❑ Is the home large enough for my present and future family and is this where I want to raise them? This issue requires not only the analysis of family size and school districts, but also the proximity to activities and other services.

❑ Is this the home I would like to retire in? For those whose children are older, the question of retirement comes into play. For example, does the home require major maintenance that you don’t have the ability to take on during retirement?

❑ How do the home have the amenities my family desires? For example, do I want a big yard for children to play in or for other enjoyment? Do I want a big kitchen and dining room in order to entertain?

❑ I want to leave quickly, how marketable or rentable is this home? The best “buy” which is most affordable because it is in the middle of the country may not be the best choice for those who need to be mobile.

We could go on and on regarding the choice of the home and location. However, as you may guess there are also financial aspects of suitability. These include—assessing the home with regard to meeting your financial needs in the future.

For example, last month we spoke of the cost of the housing payments after taxes because this represents the real issue with regard to affordability. Part of the reason this home may be affordable is because of the tax deduction. However, if you are not paying taxes because of other deductions, you may not receive most of the benefit of the home purchase. This is especially true for those who are self-employed and may use their status to “write-off” much of their income. The figure becomes an issue when the status of your income and deductions change. If income is to rise, then the home actually will become more affordable in the future.

If you are employed and will get the benefit of a tax deduction you can make the home more affordable on a monthly basis right now by increasing your withholding exemptions on your IRS Form W-4 which is filed with your employer. This will lower your tax withholding on a monthly basis and can make more income available each month to help you afford the payments.

Another financial issue with regard to affordability involves whether future changes may make the home more or less suitable. We already discussed this somewhat when talking about how adjustable rate mortgages may change in the future and how many purchased homes downgrading when resale happens. When short-term rates rise, so do the payments on adjustable rate mortgages, especially if the start rate is very low. This

is called a “teaser rate.” Typically, if your payments were to rise by \$200 to \$1,000 per month, depending upon the size of the loan, could you afford the increase? There are other issues with regard to the future. For example,

❑ Will the long-term appreciation of the home help you finance debts at a lower-monthly cost than you are paying now. Debt-consolidation loans using the equity in a home are very popular in a nation that seems to be very dependent upon the use of credit. Of course, the use of this equity means that it cannot be used for other purposes such as retirement.

❑ Will the home require major maintenance in the near- or long-term? The purchase of “fixer-upper” may be very suitable for those who are handy or have liquid assets for contractors. For others, having a home in need of maintenance can be a psychological and financial burden.

❑ Will my situation change in the future? Retirement, job changes, increases and decreases in income. All of these are relevant to suitability.

Qualification, affordability and suitability. All relevant questions to answer before you purchase your next home. ■

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# THE REAL ESTATE TRENDS

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## REAL ESTATE TRENDS

FOR REALTORS, HOMEOWNERS AND PROFESSIONALS

October 2009



### Government To The Rescue!

**J**ust when you think things can't get any wilder they do. The last month has given a new definition to the term "wild and crazy." What has happened? The government took over the most important housing entities in the nation—Fannie Mae and Freddie Mac. The government also bailed out a major insurer, AIG to the tune of \$85 billion dollars. While they were doing that, the Feds chose to let a major financial company, Lehman Brothers, collapse. Meanwhile the stock market's Dow Jones Industrial Average has been going up and down (more down) hundreds of points from day-to-day. Now the government is formulating a plan to purchase distressed mortgages from financial institutions.

What is behind this financial madness? The housing crisis. As home prices go down and foreclosures soar, the mortgages that investors have purchased are becoming worthless. While housing is the major cause, it is also the solution. When home prices stop going down and people start buying again, the markets will stabilize. Actually the crisis will be part of the solution. Interest rates have fallen sharply over the past several weeks as the crisis intensifies. Lower rates translate into increased demand for homes because it makes owning a home more affordable. Coupled with lower home prices, lower rates will help hasten the end of the crisis.

The longer the crisis goes on, the more likely that the housing recovery will be



### Come Get Your \$7,500!

**N**ews continues to be released regarding the tax credit authorized by the recent housing legislation. The government feels that providing an incentive to purchase homes at the present time will help hasten the housing recovery and we agree. Here are some facts regarding the credit.

- First-time homebuyers who purchase a principal residence between April 9, 2008 and July 1, 2009 qualify for the tax credit and it is retroactive for buyers who have already closed.

### Tax Credit

- The maximum credit is \$7500 or 10% of the purchase price if lower than a \$75,000 sales price.
- If the home is purchased in 2009, homebuyers can elect to amend 2008 tax returns and claim a tax credit.
- The tax credit is "recaptured" by the IRS, and is an interest-free loan and

### Population Projections

**W**hat are census data projections for the next 40 years? The answer lies in the country's changing racial composition due to the mass exodus of the middle class to the suburbs. What's clear is that the latest numbers will inevitably give the real estate business a boost.

The Census Bureau is projecting an increase of 135 million people in the U.S. a 44 percent rise by 2050. That's equivalent to the entire population of Mexico and Canada moving to the United States. The bureau estimates that this population boom, largely fueled by immigration, will require 52 million new housing units, along with more places for people to shop and work.

The recent housing slump has caused homebuilding to fall significantly below one million units annually, including multi-family units. This means that present home building activities will not be sufficient to meet the needs of future population growth. The longer the housing slump continues, the more acute the shortage in the future. □

### Did you know...

- Activity is slowing in the commercial real estate market in response to tightening credit and weak economic growth, according to the National Association of Realtors. In its latest Commercial Real Estate Outlook, the NAR reports that financing problems stemming from the crisis on Wall Street, are a lack of demand, are causing real estate

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**Now there is a professional solution!**

→ Subprime mortgage solutions are disappearing.

→ Fannie Mae and Freddie Mac are charging more for those with lower credit scores.

→ A low credit score is correctable—with the right plan.

→ For the average consumer\*, we can increase your credit score in the short term and give you a plan to keep your credit score higher in the future.

\*results will vary by individual



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