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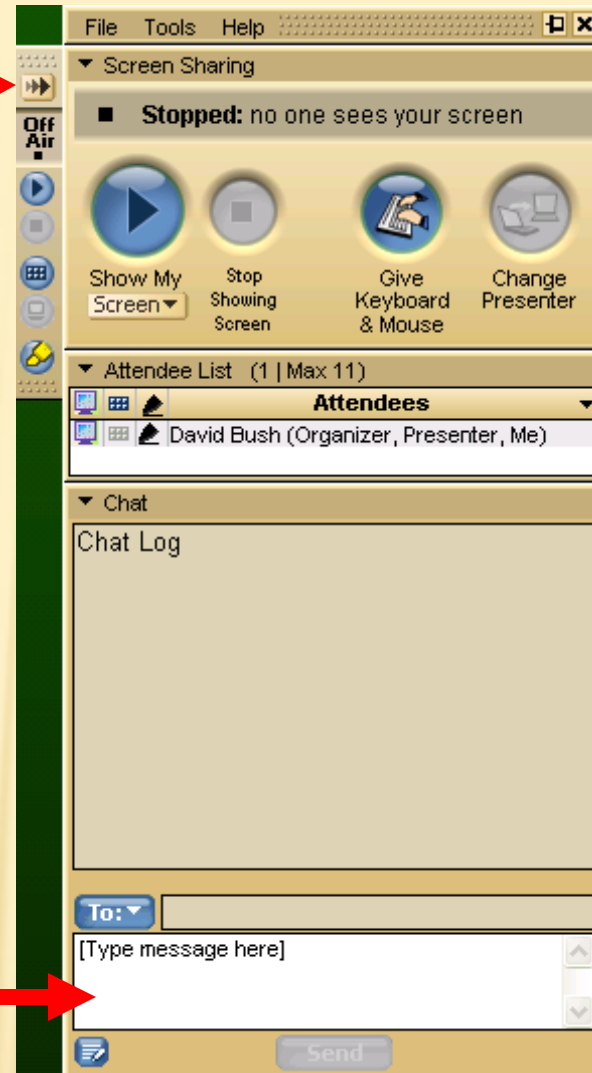
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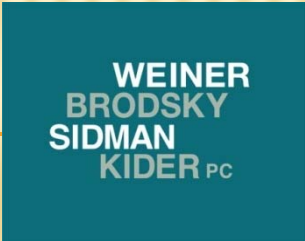
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The Federal Reserve Board's Changes to Regulation Z Implementing the Loan Originator Compensation Rules

**Special Guest
Presenter**

James Milano



**Dave Hershman
OriginationPro**

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Dave Hershman Top Industry Author and Speaker



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- 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

- Legislative/Regulatory Update
- Short Intro to OriginationPro Product Line
- Scope of the Dodd-Frank Law
- Introduction of Speaker
- Compensation: Three Rules
- Applicability
- Dodd-Frank Law Compensation

**And—
Q&A**

LATEST NEWS BRIEF

- MBA has filed suit against Depart of Labor regarding overtime rules. Rumor has it one trade group may be filing suit challenging Fed on the comp plan. Very little guidance from the Fed in writing.
- FHA has eliminated the use of Master Appraisal Reports for new home projects.
- FHA is in the process of extending the waiver of its anti-flipping rule for another year.
- Red Flags rule: effective December 31, 2010. More information to come on this.
- Reminder of new credit score disclosure. Relates to how much an applicant's credit scores affects their quotes and/or decision on a loan.
- Speaking of new disclosures: The Fed release interim rule requiring new TIL/mortgage program disclosures starting January 31.
- FHA issued extension of temporary waiver of new condo requirements through June 30, 2011, but does not affect expiration dates of approvals.
- Deduction for mortgage insurance extension was included in the tax compromise
- Fannie/Freddie are raising premiums for low scores & secondary financing—some lenders already charging
- FHA has not ruled on Seller Contributions as of yet. Rumor has it will come in January.
- FHA is considering changes in MIP refund policy.
- FHA has started tracking NMLS numbers.

RED FLAGS RULE

- The FTC issued this rule now effective December 31, 2010 specifying the responsibilities of lenders not only to protect the identity of the applicants, but ferret out applicants who are stealing the identities of others. The rules were promulgated under the Fair and Accurate Transactions Act
- The rule applies to financial institutions and creditors. The Rule defines a “financial institution” as: banks and any other entities that directly or indirectly hold a “transaction account” belonging to a consumer.
- Those who must comply must develop and implement an identity theft protection program. The FTC has issued these steps to developing such a program:
 - Step One – Identify relevant red flags. Identify the red flags of identity theft you’re likely to come across in your business.
 - Step Two – Detect red flags. Set up procedures to detect those red flags in your day-to-day operations.
 - Step Three – Prevent and mitigate identity theft. If you spot the red flags you’ve identified, respond appropriately to prevent and mitigate the harm done.
 - Step Four – Update your Program. The risks of identity theft can change rapidly, so it’s important to keep your Program current and educate your staff.

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- **MBS data sent to your cell phone** -- Say goodbye to surprises...when unscheduled price changes hit, you'll be the first to know, no matter where you are. In the office or on the golf course, you can beat the re-price and save your commissions!
- **Daily Market Commentary** updated all day long gives you the ammo you need to discuss market conditions with borrowers and Realtors in terms they can understand...not useless econo-babble!
- **Calendar of events** warns you of pending market volatility. The release of economic data is the #1 reason why bonds become volatile! It is crucial for you to know what data is scheduled for release, so you can advise your borrowers, Realtors, and other referral partners to make the best decisions regarding their mortgage loans.

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FINANCIAL SERVICES LEGISLATION

- The President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act 7/21.
- The law incorporates several separate new laws, including the Mortgage Reform and Anti-Predatory Lending Act which is Title XIV of the Act, and the Consumer Financial Protection Act of 2010 (Title X), which creates the new Bureau of Consumer Financial Protection, which will be an independent agency under the Fed. The Subtitles of The Mortgage Reform Act include:
 - Subtitle A: Residential Mortgage Loan Origination Standards addresses limitations on mortgage originator compensation and permissible activities
 - Subtitle B: Minimum Standards for Mortgages, adds an ability to repay standard for residential mortgage loans and additional disclosures for residential mortgage loans
 - Subtitle C adds a new definition and new requirements for high cost mortgage loans
 - Subtitle D adds a new Office of Housing Counseling under HUD and mandates changes to the mortgage information booklet given to the applicant under RESPA.
 - Subtitle E adds new obligations on loan servicers via amendments to TILA and RESPA
 - Subtitle F adds new loan appraisal requirements to replace the HVCC
 - Subtitle G adds enhancements to the HAMP program
- **Timing of Implementation:** Some provisions may be immediate but in reality the Consumer Financial Protection Bureau must be created first & then issue rules. Some rules may be introduced directly from the Fed who has already proposed some of these, such as compensation regulations. Elimination of HVCC also had a timing component—90 days.

FED COMPENSATION RULES

- Why did these rules come out so quickly after the signing of the Dodd-Frank Act?
- These are FINAL Rules that were proposed in August of 2009 and, for the most part, the language was incorporated into the Act.
- It is assumed the Fed waited to issue final rules to make sure the language in the final version of the Act did not conflict with their proposed rules
- Rules effective 4/1/11.

SPECIAL GUEST PRESENTER

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Jims focuses on federal and state regulatory compliance matters related to the financial services industry, particularly with respect to reverse mortgage lending issues. Jim is Co-General Counsel of the National Reverse Mortgage Lenders Association the national trade association supporting reverse mortgage originators, servicers, investors and their vendors, and is nationally recognized as one of the leading lawyers in the area of reverse mortgage law. He represents and advises mortgage companies, consumer finance companies, financial institutions and secondary market investors, and their settlement service provider vendors, on issues such as:

- State mortgage licensing and S.A.F.E. Act related compliance
- FHA lending programs, rules and guidelines
- Responding to federal & state regulatory audits and administrative enforcement actions
- State laws & regs concerning loan disclosures, allowable fees & prohibited practices
- Federal preemption of state lending laws
- Federal laws and regulations including, but not limited to, TILA, RESPA, ECOA, FDCPA, HMDA, FCRA, GLBA
- Implementation of the Dodd-Frank Act

Overview

- No comp to loan officer from anyone else if consumer pays loan officer directly
- If anyone else pays loan officer, then no payment allowed:
 - From consumer, or
 - Based on terms/conditions of loan (with some exceptions)
- If anyone else pays loan officer, no steering consumer to close loan not in consumer's interest

What Is Covered?

- Application received by Creditor 4/1/11 or after
- Loan types: All Closed-end Consumer Loans secured by dwelling (narrow exceptions include HELOC's, vacant land, business purpose)
- Closed End Reverse Mortgages
- Most if not all Fixed Rate HECMs are Structured as Closed End Credit for Regulation Z Purposes
- Most if not all Variable Rate HECMs are Structured as Open End Credit for Regulation Z Purposes
- Payments to "Loan Originators," but NOT Payments to Entities that Are Creditors ("Secondary Market Exemption" Applies)
- Lenders Making Loans in Their Own Name with Their Own Funds Are Creditors and may sell Loans and Receive "Gain on Sale." Warehouse Lines of Credit OK, but be Careful with "True Source of Funds"

Who is an LO?

- Person for compensation or gain (or expectation of comp or gain), arranges, negotiates or obtains extension of credit for another, but NOT creditor
- Brokers (individual or entity)
- Loan officer employees (creditors/brokers)

Rules do not apply to:

- Managers, admin staff, and others if they do not originate loans, and comp not based on whether particular loan is originated
- Servicer modifying a loan

What is comp?

- Almost everything:
 - Salaries, commissions, awards, prizes
 - Fees the loan officer retains, regardless of name

Rule 1

No comp to loan officer from
anyone else, if consumer pays
loan officer directly

Rule 1

- If consumer pays LO directly:
 - Cannot Give – All other persons who know (or should know) of consumer- direct comp prohibited from paying LO in connection with transaction
 - Cannot Receive – All LOs prohibited from receiving any other comp in connection with transaction

What is consumer-direct compensation?

Rule One Compensation:

- Cash, payment from loan proceeds at closing
- Not consumer-direct – comp from increased interest rate, points, or fees paid to creditor which are then paid to loan officer

Rule 1 – Recap

No comp to loan officer from anyone else, if consumer pays loan officer directly

Rule 2

If non-consumer pays loan officer,
no payment based
on terms/conditions of loan

Rule 2

- What is a term/condition?
 - Interest rate/APR
 - LTV
 - Prepayment Penalty
 - Proxy for term/condition such as credit score or DTI

Rule 2: What's allowed?

- Compensation based on factors like:
 - % of loan amount fixed in advance (floor/cap permitted, but no tiers based on loan amount)
 - What is the “Loan Amount” for a Reverse Mortgage?
 - Best Answer: Maximum Claim Amount
 - Close rate—apps resulting in closed loan
 - Different comp for different LOs (Fair Lending Issue)
 - Long term performance of loans (FLSA Issue)
 - Volume (number of loans or dollar amount) (RESPA)

Rule 2: What's allowed? (cont'd)

- Comp based on factors like:
 - Legitimate business expenses like fixed overhead costs (FHA/net-branch Issue)
 - Hourly rate or salary for hours worked
 - Whether new or existing customer
 - Fixed amount per loan (e.g., \$600/loan, or \$1,000/loan for first 1,000 loans and \$500/loan each additional loan)
 - Quality of LOs files (e.g., accuracy/completeness)

Rule 2: Can comp be changed?

- No change in comp (increase or decrease) allowed based on terms/conditions
- Periodic revisions allowed: Can revise comp going forward, but not based on loan's terms/conditions

RULE 2 - RECAP

If non-consumer pays loan officer,
no payment based on terms/conditions
of loan,
except % of loan amount

Rule 3

If non-consumer pays loan officer,
no steering allowed unless
in consumer's interest

Rule 3: Definitions

- What is “steering”?
 - Advising, counseling or otherwise influencing consumer
- What is “consumer’s interest”?
 - Compare transaction to other loans available through the loan officer
 - E.g., higher rate loan but no prepayment penalty or lower costs

Rule 3: Exceptions

- Not applicable to:
 - Creditor's employees if comply with prohibition on compensating based on loan terms/conditions
 - Consumer direct transactions
 - "Safe Harbor"

Rule 3: What's the Safe Harbor?

- Presume compliance if loan officer obtains loan options from significant number of creditors with which regularly does business, and either:
 - Steers to loan with least amount of creditor-paid compensation, or
 - Presents consumer with options satisfying 3 criteria for each type of transaction of interest to consumer (e.g., fixed, ARM, reverse)

Rule 3: What Three Criteria?

1. Lowest rate
2. Lowest rate, and no “risky features”
 - E.g., negative amortization, prepayment penalty, interest-only, balloon within 7 yrs., demand feature, or shared equity/appreciation
3. Lowest total dollar amount for origination points or fees and discount points

Rule 3: What's not required?

- Creditor/LO not required to:
 - Meet safe harbor
 - Establish new relationships
 - Inform consumer of transactions for which don't likely qualify

Rule 3 – Recap

If non-consumer pays loan
officer,
no steering permitted, but
safe harbor

Penalties for Violation

- Same as the other TILA violation (creditor liability, generally not natural persons)
- Actual damages, plus 2X finance charge (but no less than \$400 or more than \$4,000)
- Class actions capped at \$500,000
- Criminal penalties for willful violation

Reg Z – 4/1/11 – Recap

3 General Rules

- **Rule 1** - No comp to loan officer from anyone else, if consumer pays loan officer directly
- **Rule 2** - If anyone else pays loan officer, no payment from consumer, or based on terms/conditions of loan – exceptions
- **Rule 3** - If anyone else pays loan officer, no steering consumer to close loan not in consumer's interest

Reg Z – 4/1/11 – Recap

4 Examples of Applicability

- **Situation One:** - Loan officer who is broker compensated by Wholesaler (Plus YSP Issue)
- **Situation Two:** Owner of brokerage company.
- **Situation Three:** Producing/Non-Producing Manager of a Lender
- What about **seller contributions** to closing costs?

Dodd-Frank LO Comp Rule

Coming Soon

DFA Rule – In Brief

- Similar, but different
- MO (Mortgage Originator) definition broader
- Prohibited MO comp methods:
 - No MO comp from any source based on loan terms, other than loan amount
 - MO comp from creditor or consumer, but not both
 - YSP prohibited for LO comp

DFA Rule – In Brief

- Allowed MO comp:
 - MO comp based on volume of loans during set period
 - Discount points, to obtain lower rate – can finance points
- Secondary market transactions not covered

DFA Rule – In Brief

- No steering:
 - Applies to MO and creditor
 - Cannot steer from qualified loan, to loan that consumer lacks ability to repay, or predatory loan (undefined)

DFA Rule – Major Differences

- Mortgage Originator definition broader
- If non-consumer pays MO, no consumer-direct payment AND no consumer upfront payments (e.g., discount points, origination points/fees), unless agency waives rule
- Steering prohibitions broader: apply to creditors AND no safe harbor
- Loan term/condition prohibition broader: Applies even if consumer pays directly
- Increased penalties, MO liability, longer S/L, state AGs

DFA RULE

MO Comp Summary

- Coming soon, but not yet
- More restrictive
- Second round of changes

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STEP ONE

Update Your

- Name
- Contact Info
- Personal Paragraph
- Address Block

The screenshot shows a user profile update form divided into two main sections: 'About yourself' and 'Contact Info'. Below these is a 'Personal Paragraph' field and an 'Update Your Contact / Address block' section.

About yourself

- Username: (no editing)
- First name:
- Last name:
- Display name on your newsletter as:
- 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:

Contact Info

- E-mail: (required)
- 2nd E-mail: (can be the same as above; this is the "reply-to" email for unsubscribing)
- Phone 1: -
- Phone 2: -
- Company:

Update Your Contact / Address block

This information is mandatory for CAN-SPAM email laws:

- Address 1:
- Address 2:
- City:
- State:
- Zip:

Arrows from the text on the left point to the following fields in the form:

- 'Name' points to the First name field.
- 'Contact Info' points to the E-mail field.
- 'Personal Paragraph' points to the text area for co-branded text.
- 'Address Block' points to the Address 1 field.

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 form 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 & 100 pixels in width.

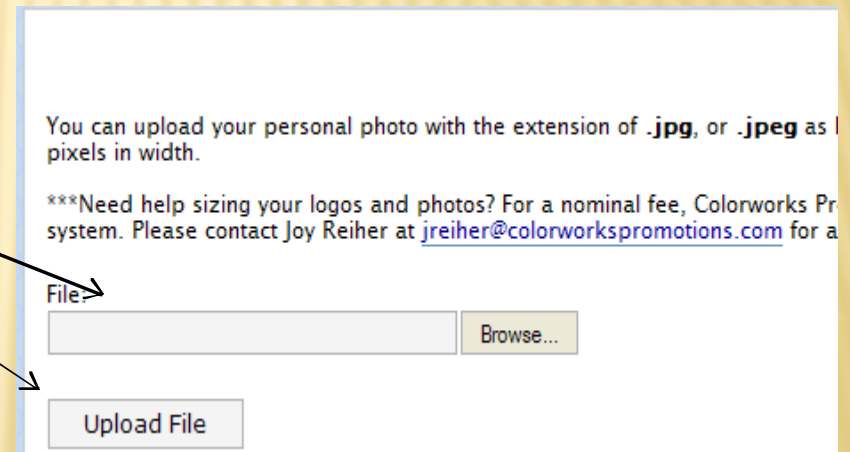
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File:

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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- The main page/dashboard also gives you access to all print materials, including archives
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- 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**

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- Back Pages. These help turn the one-page documents into self-mailers.

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Volume 2 Issue 9 September 2008

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- 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 actual 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 fastest 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 indexing 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

Last 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%, to serve a much greater percentage of the population, you have the ability to make your business cycle proof. In this case we meet a professional from the real estate or real-estate related industry who is making a business transaction related to a five-year or guaranteeing their first home in the next five years.

Certainly, financial leaders have changed the rules during the current credit crisis. The largest growing segment of your equity is on the part 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 to serve these people is to create a transaction in the next month and trying to apply "hand-holds" to get them approved. Instead, 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 individuals have a big financial or home value loss a year or two later. Research has shown that an investment of purchasing a home for 30 or more years is not a decision that serves everyone. Getting their financing in shape should be a long-term endeavor—

One's success should be dependent on the long-term. It usually means more work at that credit report when they are going to make a purchase on a home or an 11th hour



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

the strategy may be to serve others. Today not only do mortgage lenders—charging more for low credit scores, but are more conservative on rates, credit and occupation and credit. Dealers are starting to run reports before they accept a loan. A few credit scores and a person has declined from a number of offers in the next year or 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 opening an existing credit on a credit card or closing 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, to serve why 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 business in line to qualify for a loan is one thing. Helping a person who is struggling to get someone completely debt free is a much bigger and more rewarding proposition.

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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?

In 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?
- ❑ Does this 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 payment 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 payment.

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 “lower rate.” Basically, 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!

Just 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!

News 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 non-refundable 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

What are census data projections for the future? The Census Bureau's most recent projections are based on the country's changing racial composition due to the massive scope of the increase. 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 populations 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 curbing real estate

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Have The New Lending Rules Locked You Out Of Obtaining A Mortgage?
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



Did you know that a low credit score can increase your costs for insurance and even hinder your search for a job?

A low credit score will cost you thousands of dollars in extra borrowing costs over your lifetime. It can even

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