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**Minimize Control Panel**



**How to ask a question**



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# LAWS AND ETHICS FOR MORTGAGE ADVISORS

**Dave Hershman**

**OriginationPro**

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# DAVE HERSHMAN

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- ✘ 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



[www.OriginationPro.com](http://www.OriginationPro.com)

# OUR GOALS TODAY

- Legislative update
- Sales strategy of a Mortgage Advisor
- Major mortgage laws
- Ethics—Responsibility of a loan officer
- Ethics—The right side of the line
- Ethical marketing
- Long term view of clients

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

# HOME VALUATION CODE OF CONDUCT

- NAMB has withdrawn it's suit. It seems to be expecting action by Congress. Major lobbying effort. We will send you the content of the email to send to Congress.
- As it stands today, the HVCC will take effect on May 1, 2009
- The rule states that GSEs will no longer purchase loans from lenders “accepting appraisal reports completed by an appraiser selected, retained, or compensated in any manner by any third party.”
- Brokers and originators can't even communicate with appraisers—what if there are questions?
- Even lenders must separate originators from the appraisal process—cannot even work in the same department which orders the appraisals
- This was a result of a negotiations through a suit filed by the AG of NY. It did not go through any administrative procedure (rule review by agencies).
- The answer? Appraisal management companies will control the market. This means higher costs and less local knowledge of the market—with less help. The independent appraiser will join or lose market share.

# LATEST NEWS ON THE HOUSING FRONT

- Several States setting up programs to allow first time buyers to obtain their tax credit up-front
- FHA is in the news... HUD Secretary Donovan testifies before Congress—
  - Admits FHA default rates are up. Is FHA the next pillar to fall? Could portend new tightening of FHA requirements or higher MIP fees.
  - Default rates higher for DPA program
  - Announces SWAT Teams will be swooping in on problem lenders.
- Congress is considering regulating YSPs. NAMB is supporting so far. Latest news, mark-up on this bill has been postponed and hearing may be held. Key issues..
  - Will bankers also be required to disclose?
  - What will the restrictions be? Does not look to be a total ban but limiting putting someone into a higher cost program because YSPs. How do they do this? It will be hard! Great example: Margins on Option ARMs.
- National licensing is coming for loan officers—including minimum credit score and net worth

# NEW FHA LOAN LIMITS— CONFORMING JUST RELEASED

## FHA Base Limits

One-Unit \$271,050

Two-Unit \$347,000

Three-Unit \$419,400

Four-Unit \$521,250

Units	Contiguous States, District of Columbia, and Puerto Rico			Alaska, Guam, Hawaii, and the U.S. Virgin Islands		
	General	High-Balance Loans		General	High-Balance Loans	
		Permanent High-Cost	Temporary High-Cost		Permanent High-Cost	Temporary High-Cost*
<b>One</b>	\$417,000	\$625,500	\$729,750	\$625,500	\$938,250	NA
<b>Two</b>	\$533,850	\$800,775	\$934,200	\$800,775	\$1,201,150	
<b>Three</b>	\$645,300	\$967,950	\$1,129,250	\$967,950	\$1,451,925	
<b>Four</b>	\$801,950	\$1,202,925	\$1,403,400	\$1,202,925	\$1,804,375	



# OBAMA PLAN—HOME AFFORDABLE REFI TO BE EXPANDED?

- Present loan must be a conforming loan (see “look-up” systems)
- Effective with loans delivered April 1, 2009 until notes dated June 10, 2010.
- Maximum LTV is 105% of value.
- Includes high-cost conforming loans (729K).
- Existing seconds can be subordinated above that (no new seconds allowed)
- Relaxed MI requirements...existing MI company must “play along” providing same coverage as original loan. If originally did not need MI—will not now.
- Must be a lower mortgage payment or a more stable product.
- Subject to LLPA but not adverse market delivery fees.
- No cash-out allowed nor can money be used to pay off junior liens.
- No short-term adjustables or conversion from fixed to adjustable.
- Any types of properties approved by agencies.
- Any types of transactions: owner-occupied, second homes, or investors.

# REFI PLUS PRICE ADJUSTERS

## Refi Plus™ Mortgages ONLY

Table 4: Refi Plus Mortgages with Subordinate Financing (2)				
LTV Range	CLTV Range	LLPA		SFC
		Credit Score < 720	Credit Score ≥ 720	
65.01% – 75.00%	90.01% – 95.00%	0.500%	0.250%	339
75.01% – 95.00%	90.01% – 95.00%	0.500%	0.250%	338
75.01% – 90.00%	76.01% – 90.00%	0.250%	0.000%	187
Any	>95.00%	1.500%		

Table 5: Expanded Approval – DU Refi Plus Only										
Product Feature	LLPAs by LTV Range									SFC
	These LLPAs are <i>in addition to</i> (and NOT in lieu of) the standard Credit Score/LTV LLPAs under Table 2 (note that the LLPAs below also apply to mortgages with terms less than 15 years).									
Representative Credit Scores	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	97.01 – 105%	
≥ 740	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.500%	0.500%	716
720 – 739	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.750%	0.750%	716
700 – 719	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%	0.750%	0.750%	716
680 – 699	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	1.000%	1.000%	716
660 – 679	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	1.000%	1.000%	716
640 – 659	0.750%	0.750%	0.750%	0.750%	0.750%	0.750%	0.750%	1.250%	1.250%	716
620 – 639	0.750%	0.750%	0.750%	0.750%	0.750%	0.750%	0.750%	1.250%	1.250%	716
< 620	1.250%	1.250%	1.250%	1.250%	1.250%	1.250%	1.250%	1.750%	1.750%	716

(2) If the subordinate financing is a Community Seconds® loan, these LLPAs do not apply and the lender must use SFC 118.

# THE MOST IMPORTANT \$39..

...You will ever spend

Start with a free package..

*Package, includes—Book of Home Finance (soon to be updated) and more; Audio Marketing Seminar; Performance Library of articles—all accessible on the dashboard of the system;*

**Add in the most comprehensive sphere marketing system...**

*The NewsletterPro Marketing System is the most effective marketing tool to your most important target.*

**Then top it off with**

*A complete certification program that comes with coaching from the number one industry expert*

**And there is no obligation: you can cancel at any time**

**Upgrade available-Includes MyMortgageCommunity & Velma**

# WHAT IS CMA?

## Certified Mortgage Advisor

- Ten webinars including today's. There is a choice of at least three webinars for the tenth webinar.
- Includes three part planning/advisor course.
- Schedule on [www.certifiedmortgageadvisor.biz](http://www.certifiedmortgageadvisor.biz)
- Six months to attend all 10 courses (15 hours of training)--**must attend LIVE!**
- Certification page posted on site (above) with list of class dates so you can track. **It is your responsibility to track!**
- Continuing education---CMA Case Studies---We don't want you to stop learning
- Must be a NewsletterPro Marketing System subscriber for six months
- Test is issued. Passing score gives you CMA certification
- Marketing materials coming as well..Logo, seminars and more!
- **New: Webinar registrations, slides and audio all on home page of newsletter system.**

# SALES STRATEGY OF A MORTGAGE ADVISOR

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- A loan officer is viewed as a sales person
- A mortgage advisor gives advice because they are seen as an expert
- That means they know what is right and what is wrong
- That means they know what their responsibilities are—where they start and where they end.
- That means they are taking a long-term view—beyond the commission **(even for those who don't qualify!)**
- The long-term goal is repeat business, referrals and a successful career
- We are moving into an era of significant regulation
- This is our most important webinar—but least popular
- I believe you can make more money by staying on the right side of the line!

# MAJOR MORTGAGE LAWS

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- The regulatory entities—
  - Federal Reserve (lending)
  - HUD (real estate)
  - States (licensing and lending)
- Equal Credit Opportunity Act
  - Applies to all lending—Fed Reserve
  - Discrimination and Advertising
- Fair Credit Reporting Act
  - Information can't be shared
  - Does not mean we can't provide credit reports to clients
  - FACT Act amended the FCRA—free credit reports and other protections
- Fair Housing Act
  - Again, don't discriminate-but this time on housing—HUD
  - Applies to Realtors and property managers
- Home Mortgage Disclosure Act
  - Reporting—Fed Reserve
  - Separate Reports for high cost loans
  - Definition of high cost is changing

# MAJOR LAWS-CONTINUED

- Home Ownership and Equity Protection Act--HOEPA
  - Regulates high-cost loans (Section 32 loans)
  - New Fed Rules—decreases the rate required to trigger Section 32 to 1.5% over index
  - Suitability (ability to repay), verify income & assets, no prepay penalty if loan can change in first four years, must have escrow account, increased advertising standards under TIL. Eff 10/09
- Flood Disaster Protection Act—Flood insurance.
- Right to Financial Privacy Act
- Alternative Financial Transaction Parity Act
- Telemarketing and Consumer Fraud Protection Act
  - FCC--Do Not Call List and Can Spam Act
- Home Ownership Protection Act
  - Mandatory cancellation of mortgage insurance
- Real Estate Settlement Procedures Act--HUD
  - Disclosure of closing costs—New GFE to go into effect this year
  - Prohibition of referral fees
  - Regulation of escrow accounts and transfer of servicing (two disclosures, one new for transfer)
- Truth in Lending Act—Fed Reserve all lending
  - TIL and ARM disclosures (New disclosures part of HOEPA changes—for exotic mortgages)
  - Advertising
  - Right of Rescission

# ETHICS: RESPONSIBILITIES

- First—Mortgage Suitability
  - What a client wants vs. what they need vs. what they can afford
  - Requires looking at today and looking at tomorrow (Planning for Advisors Part II)
  - It means looking beyond a commission and seeing what is right and what is wrong
  - Example: Putting them in the right loan instead of highest commission (FHA vs Subprime)
- Second—Rates
  - Is your job to find the lowest rates or advise the client? How about when to lock?
  - An advisor realizes that rate is not the most important factor: Do they make a rate every month? What about the future?
  - Example: Junk Fees vs. points and shopping for the lowest rates and points
- Example—Promises—I can do that
  - Promise more than you can deliver to get the deal in the door—you can't exceed expectations
  - Not just rate—fastest service or approval of those with bad credit. “I can do in five days.” Like Realtors competing for listings
- What about when you are faced with “other side of the line”
  - Do you say yes to get the deal?
  - Key concept: Find another way get the transaction done right.
  - Going even further--spotting fraud



# ETHICS: MORE EXAMPLES OF THE “LINE”

- Publishing rates that do not exist (or just for a select few)
- Bait and switch
- The issue of referral fees: RESPA
  - Everyone else is doing it
  - Realtors are demanding it
  - What do you say?
  - What can you do and what can't you do...Realtor vs customers
- Duplicative locking with lenders
  - Ruining relationships
- Floating loans against the market
  - Illegal and stupid
  - Why it happens: greed and back to promising something that does not exist
- Delaying settlement for profit—can't make money, then wait it out.
- Counseling for explanations—you can write it for them, but...
- Investment properties
  - Second largest instance of fraud
  - Issue is not time, it is intent

# ETHICS: MORE EXAMPLES

- Home for sale
  - Dumb criminal stories
  - Stupid rule that changes with the times
- Leases—new FHA rule has taken this to a new level
  - Industry has never verified
- Truth-in-Lending—you can't have three days back
  - What constitutes completed application (early disclosure)—may change new RESPA Rules
  - Tie to GFE (only TIL for mortgages has requirement)-to change under new RESPA Rules
- Phantom Addenda
  - The whole deal must be disclosed
  - Big today with illegal incentives
- Lock in agreements must be in writing
- Second sheet signatures—looks more like fraud than it is.  
Stated income
  - The end of liar loans
  - No ratio was the alternative—scarce now

# ETHICS: THE PARADE CONTINUES

- Gifts
  - Can they pay them back?
  - Difference between a promise and a “note”
- Bogus Social Security Numbers
  - Patriot Act puts onus on you
  - <http://socialsecurity.gov/employer/ssnv.htm>
  - Another responsibility—spotting fraud
- Pressure on appraiser
  - A job you don't want--”in the middle”
  - NY Attorney general agreement with Fannie and Freddie
- Predatory Lending
  - Churning
  - Higher fees and points than necessary
  - Risk of loss of home—not suitable mortgages
  - Servicing abuse

# THE BIG QUESTION

- How much is too much to charge?
- The key is having a pricing policy
  - Every company has a pricing policy
  - Vary for valid reasons—more work, competition, favor for a relative
  - Not because they don't know better
- If you have a pricing policy you will make more money and have less a chance of being accused of
- Everyone business model is different so I can't say where that policy should be (as long as it is within state and investor guidelines).
- But if it is too high—will you get repeat business and referrals?
- Additional key—this does not go into your pocket—Don't tell them how much you make (New RESPA Form).
  - It is revenue to the company—not profits
  - If they think the money goes into your pocket—you lose negotiations stance
  - Example: Buying a car

# THE KEY IS.....

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- A business model that will bring you a long-term career
- Referrals
- Repeat business
- Does not happen by accident
- What you think may give you a deal may actually turn most “long-term” players off to you. Word travels fast
- Does your marketing reflect this?
- Are you advertising rates and promises or long-term value?
- Example: Newsletters
- Example: Getting people in position in the long run

# NEWSLETTERS

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## Ultimate Value Delivery

- Expertise. Portray you as an expert —no handy homeowner hints— but economic commentary
- Understandable—no complex bond language
- Relevant up-to-date news they can use today
- Easy—it can't take your time to write, personalize or send
- Flexible—different pieces for different segment of your sphere—some targets are more important than others.

# NEWSLETTERS

---

## Ultimate sphere marketing—(Con't)

- Response. Designed to make the phone ring with more than one piece available. You are not Proctor and Gamble.
- Flexible (again)—different formats from HTML to PDF to Mail pieces.  
(even 1 to 4 page)
- Leverage. Consumer pieces to give to Realtors to send to their consumers.

# WHY NEWSLETTERPRO?

- Written by industry expert for over 20 years
- Unlimited use for one price
- Print and HTML pieces that are easy to personalize
- More than just a newsletter—
  - 4-pages and 1-page
  - Sales and real estate/finance article
  - Bonus flyers and letters
- Coaching and Training by Dave Hershman (CMA certification)
- The cost is \$39 monthly for both NewsletterPro & the CMA training program.
- You can cancel at any time
- Need mail or email fulfillment system? You can upgrade to MyMortgageCommunity and the VELMA personal marketing assistant—cost \$69 monthly



# WHY NEWSLETTER PRO?

All these pieces—and more for one low price!

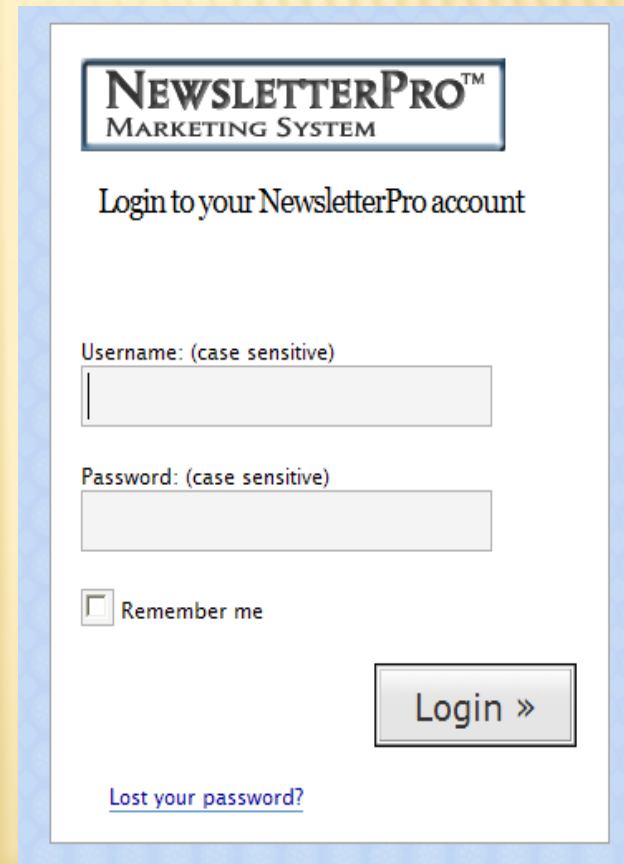
The collage displays several newsletters:

- Real Estate Trends** (June 2007): Features articles like "How Much Is The Weather?", "Fewer Selling On Their Own", and "Homeowners Face Adjustments".
- REAL ESTATE REPORT** (June 8, 2007): Includes an "ECONOMIC COMMENTARY" section.
- FOR TODAY'S SALES PROFESSIONAL & ENTREPRENEUR** (APRIL 2007): Titled "The Sales Update", it discusses "Synergy Can Really Make a Difference!" and "HIRING AN ASSISTANT AND...".
- Real Estate Update** (Volume 1, Issue 8, April 2007): Features "The Real Estate Boom Revisited" and "Did You Know...".

# FIRST

*Did you get your  
password and user  
name?*

# Log In



**NEWSLETTERPRO™**  
MARKETING SYSTEM

Login to your NewsletterPro account

Username: (case sensitive)

Password: (case sensitive)

Remember me

[Lost your password?](#)

# THEN...

## Go to Update Profile

MARKETING SYSTEM

Dashboard Write View Newsletters Users User Guide

### 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™](#)

# STEP ONE

- Update Your
- Name
- Contact Info
- Personal Paragraph
- Address Block

### 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:

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)

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:

# 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, Mortgage Calculator Links, and Update Your Password. Arrows from the text on the left point to each of these sections and the 'Update Profile' button at the bottom right.

**Disclosure**  
Enter any disclosures that your state and/or licensing status may require. If you require no special disclosures, then leave this field blank.

Licensed mortgage company in the states of MD, DC and VA

**Mortgage Calculator Links**  
Pick the display order and number of calculators that you want displayed in your right-hand navigation bar.

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**  
If you would like to change your password type a new one twice below. Otherwise leave this blank.

New Password:

Type it one more time:

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 the logo no larger than the size specified



You can upload your company logo with the extension of .jpg, or .jpeg & 100 pixels in width.

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

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 the size specified




You can upload your personal photo with the extension of **.jpg**, or **.jpeg** as long as it is no larger than 100 pixels in width.

\*\*\*Need help sizing your logos and photos? For a nominal fee, Colorworks Promotions can help you. Please contact Joy Reiher at [jreiher@colorworkspromotions.com](mailto:jreiher@colorworkspromotions.com) for a quote.

File:


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



**REAL ESTATE REPORT**

February 5, 2008

**ECONOMIC COMMENTARY**




*Super Tuesday*

This economic commentary is being published of all days on Super Tuesday. By the end of the day we may know who one or both of the Presidential candidates will be. This is the same day that either New York or Boston will be hosting Super Bowl parades—making it a real "Super Tuesday." We will boldly make a prediction. Whatever two candidates arise from the fray, they will claim that they have the plan to rescue the economy and the real estate foreclosure issue. But is this reality? Of course, not. The Federal Reserve Board has moved rates down 1.25% in less than two weeks. Finally they are acknowledging the severity of the problem. As we have said all along, this move will do more to help the markets than anything else. Adjustables will not adjust upward as much and rates are more affordable to finance real estate in general.

**ORIGINATIONPRO™**  
Power Tools for Mortgage Professionals

Dave Hershman  
The Hershman Group  
PO Box 932  
Centreville, VA. 20122  
davehershman@verizon.net  
(111) 222 - 3333  
(222) 333 - 4444



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



# 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.

## Dashboard

### Welcome to the NewsletterPro Dashboard

Use these links to get started:

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- [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](#)

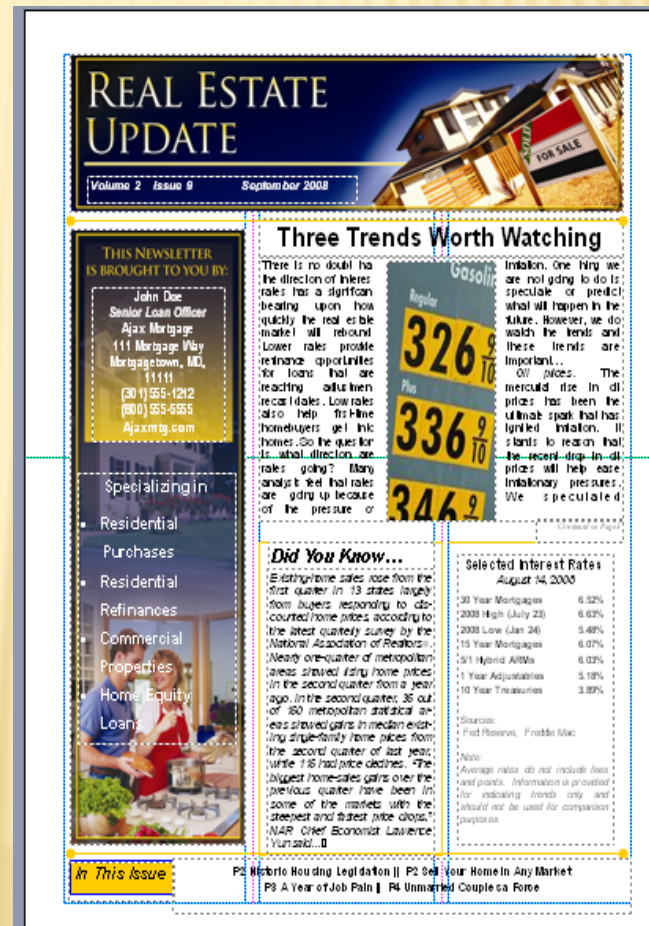
[Back Page #2 for Letter Size Newsletter Publisher Version](#)

[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





# 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 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 a fixed-term rate rises, 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!

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 Fed 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

### Population Projections

What does the Census Bureau project for the future? The Census Bureau is projecting an increase of 135 million people in the U.S., a 44 percent rise by 2050. This is 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 sleep 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 in investing 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, not a lack of demand, are curbing real estate

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

Now continues to be relevant 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 deduct annual 2008 tax returns and claim a tax credit.
- The tax credit is "recaptured" by the IRS, and is an interest-free loan and

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

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\*Results will vary by individual.

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Are you taking the long-term view or looking only at what your clients mean for you today?

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- ✘ 24/7 Webinar: <http://fdi.OriginationPro.com/>
- ✘ Live Webinar tomorrow (Thursday). [www.OriginationPro.com](http://www.OriginationPro.com)

# WHAT WE COVERED TODAY....

- Legislative update
- Sales strategy of a Mortgage Advisor
- Major mortgage laws
- Ethics—Responsibility of a loan officer
- Ethics—The right side of the line
- Newsletters and FDI

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