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ORIGINATIONPRO MORTGAGE SCHOOL

ORIGINATING REFINANCES

In Today's Challenging Environment…

Dave Hershman

OriginationPro

A Certified Mortgage Advisor Webinar

OUR GOALS TODAY

- Legislative update
- What is a refinance?
- Purpose of refinances
- Program requirements
- Additional technical considerations
- Marketing refinances
- Converting refinance prospects
- Overcoming refinance challenges
- NewsletterPro System—special refinance marketing.

And Coaching —Q&A on any topic

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

ORIGINATIONPRO.COM

NEWS: BOND MARKET MELTDOWN

- Bond Market Meltdown—Isolated incident or sign of things to come?
  - I have been warning of volatility all year based upon two sources of conflict.
  - On one side: slow economy. Government purchasing Treasuries and Mortgages. All serve to lower rates.
  - On the other side: signs of recovery and government spending hundreds of billions to wake up economy. This can't be done without issue of absorbing supply in the bond markets and threat of inflation in the long run. For example, price of gold now approaching $1,000 per ounce (again).
  - Long-term Treasury and mortgage spreads (10-year to conforming)
    - In early 2007, spread approximately 1.5%
    - In 2008, spread moved over 2.5% (approximately)
    - Today, the spread is 1.5% (approximately). When bond market spiked—was even less than that.
    - What does that mean? It means that any further increases in bond rates are likely to affect mortgage rates directly. I think you saw that when the spike happened.
  - *Major point—don't try to predict the future. How many thought rates were moving to 4.0% earlier in the year?*

NEWS: LEGISLATION AFFECTS FHA

- Congress is considering several pieces of legislation affecting the housing industry. One has just been passed. Helping Families Save Their Homes Act of 2009
- Improves HOPE for Homeowners Program to reduce costs for homeowners.
  - Initially this program a bust because of two factors.
  - Major costs to consumer: 3.0% up front MI and 1.5% per month. Future equity gain shared with FHA.
  - Lender has to write down balance to approximately 94% of value.
  - New guidelines to be issued. I doubt they will make that much of a difference—but we will see.
- Limited servicer liability protections may enhance modifications
- FHA: makes it harder for lenders to get approval and also increases enforcement tools of FHA to police against those who violate guidelines.
- FHA Mortgage Letter: 2009-17: HUD will be instituting changes in the coming months to its annual renewal process for FHA approved lenders. Specifically, in an effort to strengthen its controls, the Department will eliminate the paper version of the Yearly Verification Report (V-Form) required for all renewing FHA-approved lenders and replace it with an automated Annual Certification process completed in the FHA Connection.
- VA has suspended the issuance of MCRVs because of market conditions.
- Fannie Mae has amended pricing guidelines for Home Affordable Refi program

NEWS: TAX CREDIT FOR DOWNPAYMENT

- FHA Tax Credit For Down Payment: Mortgagee Letter 2009-15. Announcement made a few weeks ago, letter was posted, taken away and then re-issued.
- Tax Credit advances as second mortgages by eligible government agencies and “instruments of the government” as defined by Section 528 of the National Housing Act.
  - The tax credit advance, when combined with the FHA-insured first mortgage may not result in cash back to the borrower. The second lien may not exceed the total amount needed for the down payment, closing costs, and prepaid expenses.
  - Secondary financing may be “soft” (silent) or require a monthly repayment.
  - If payments are required, they must be included within the qualifying ratios and, when combined with the first mortgage, cannot exceed the borrower’s reasonable ability to pay.
  - Payments must be deferred for at least 36 months to not be included in the qualifying ratios.
  - If the tax credit advance loan has a short term for repayment, it must also provide that if the borrower fails to repay by the designated deadline, principal and interest payments begin automatically or the loan converts to a “soft” second.
  - The secondary financing may not require a balloon payment before ten years.

SECTION 528 OF NATIONAL HOUSING ACT

To obtain this status as an "instrumentality" of the government, according to Section 528 of the National Housing Act, the nonprofit must be an entity "established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion)." FHA also requires that the unit of government that *established* the nonprofit also must either exercise organizational control, operational control, or financial control of the nonprofit in its entirety or, at minimum, the specific homebuyer assistance program that is using FHA's credit enhancement.

TAX CREDIT OTHER THAN DOWNPAYMENT

- Purchase of tax credit by FHA approved Mortgagors
  - The proceeds of the sale of the tax credit may not exceed the anticipated tax credit due the homebuyer based on the computations of form IRS 5405;
  - The borrower must submit a signed certification that the tax credit is not subject to offset due to other indebtedness.
  - A copy of the borrower's tax refund and/or the IRS 5405 must be collected and retained in the FHA case binder.
  - Any costs attendant to the purchase of the tax credit are to be nominal and discounting the anticipated credit to cover the costs and expenses of the transaction must be reasonable and disclosed to the homebuyer. In FHA's view, fees and costs that total more than 2.5% of the anticipated credit are considered excessive.
  - The homebuyer's downpayment required for eligibility for FHA insurance may not consist of any funds (including funds derived from a sale of the homebuyer tax credit) provided by the mortgagee, the seller, or any other person or entity that financially benefits from the transaction--or by any third party or entity that is reimbursed, directly or indirectly, by the financially benefiting person or entity.
  - Accordingly, the proceeds of the sale of the tax credit to FHA approved mortgagees, the seller, or any other person or entity that financially benefits from the transaction (or any third party or entity that is reimbursed, directly or indirectly, by the financing benefiting person or entity)*, may not be used to meet the 3.5% minimum downpayment, but may be used as additional downpayment, buying down of interest rate, or other closing costs.*

TAX CREDIT: DUE DILIGENCE

- FHA expects that entities purchasing tax credit assets will employ appropriate due diligence measures including, but not limited to:
  - Require the homebuyer to draft and provide the IRS form 5405 "First-Time Homebuyer Credit."
  - Contact the borrower's employer and review pay stubs to confirm there are no outstanding garnishments.
  - Review the homebuyer's credit report to ensure there are no unpaid student loans, or other obligations that could be offset against the credit.
  - Validate that all of the eligibility requirements for the tax credit are fulfilled
  - Review previous tax returns and IRS tax assessment letters, if any, to determine that the borrower does not have unsettled obligations to the IRS

TAX CREDIT FACTS

- $8,000 (or 10% of home's value, whichever is less)
- Purchase from January 1, 2009 to November 30, 2009
- It is "refundable" which means they get it even if they did not pay taxes
- Must be a first-time homebuyer (cannot have owned a home for three years)
- Must make less than $75,000 as a single, less than $150,000 if joint filer (phases out above that to $95K for single and $170K for joint)
- It is a credit, instead of a loan. Must remain in home for three years, or entire amount is recaptured upon sale.
- Must be a principal residence
- If you use a revenue bond program to purchase you can still use the credit

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- Ten webinars including today's. There is a choice of at least three webinars for the tenth webinar.
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- Schedule on 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.

WHAT IS A REFINANCE

- Sounds like a ridiculously easy concept—but it is not always clear
- Basic types—rate reduction vs. cash-out
  - Not always clear when it is a cash out (paying off a 2^{nd})
- What about when someone is changing title as part of a refinance? (continuity of obligation)
- What about a loan modification or short-refi?

WHY PEOPLE REFI—PAYMENT

- *To lower their payment—important sales concept*
  - They are asking about lowering their rate but that is not what they care about.
- Comparing point options
  - $300,000 loan.   7.0% interest rate
  - 6.0% no closing costs or 5.0% $12,000 closing costs
  - $1,995 in payments vs $1,800 or $1,611
  - Extra $189 in savings at 5.0% or $384 total.
  - Extra $189 in savings, pay back is 63 months (@5 years)
- Another way of looking at it.
  - Let's compare interest paid and amortization as well
  - At 6.0% the interest is $1,500
  - At 5.0% the interest is $1,250
  - So now the payback is 48 months or 4 years
  - Also at 5.0% the loan will amortize $3,000 more in four years, shortening the payback period even further (amortization advantage will go back to zero in 30 years).

WHY PEOPLE REFI–PAYMENT

Analysis

- Of course, if they finance closing costs, this changes the numbers. The reduction in the first example (PI payment comparison) becomes $131 monthly and the "pay-back" period is 92 months or @7.5 years.
- Of course, since there is no money "out of pocket" –there is no real payback except when home is sold. When the home is sold they will owe whatever principal has not been paid off. If they keep home and loan for 30 years, the result will be a savings of:
  - $70,200 at $195 per month or $138,240 at $384 per month (total savings)
  - $47,160 at $131 per month
  - You would need to subtract the cost of the longer loan term.
- The key is how long will they have the loan. At lower rates and lower rates of appreciation, average time in the home will go up.
- All numbers are before taxes

WHY PEOPLE REFI—PAYMENT

Months to Break Even After Refinance

Assuming 10% interest rate on existing mortgage
and no change in 30 year term

Interest Rate Reduction	Payment Reduction Factor	Cost of Refinance							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
0.25%	0.184	27.1	54.3	81.4	108.6	135.7	162.9	190.0	217.2
0.50%	0.367	13.6	27.2	40.9	54.5	68.1	81.7	95.3	108.9
0.75%	0.549	9.1	18.2	27.3	36.4	45.5	54.6	63.8	72.9
1.00%	0.729	6.9	13.7	20.6	27.4	34.3	41.1	48.0	54.8
1.25%	0.909	5.5	11.0	16.5	22.0	27.5	33.0	38.5	44.0
1.50%	1.087	4.6	9.2	13.8	18.4	23.0	27.6	32.2	36.8
1.75%	1.263	4.0	7.9	11.9	15.8	19.8	23.8	27.7	31.7
2.00%	1.438	3.5	7.0	10.4	13.9	17.4	20.9	24.3	27.8
2.25%	1.612	3.1	6.2	9.3	12.4	15.5	18.6	21.7	24.8
2.50%	1.784	2.8	5.6	8.4	11.2	14.0	16.8	19.6	22.4
2.75%	1.954	2.6	5.1	7.7	10.2	12.8	15.4	17.9	20.5
3.00%	2.123	2.4	4.7	7.1	9.4	11.8	14.1	16.5	18.8
3.25%	2.290	2.2	4.4	6.6	8.7	10.9	13.1	15.3	17.5
3.50%	2.455	2.0	4.1	6.1	8.1	10.2	12.2	14.3	16.3
3.75%	2.619	1.9	3.8	5.7	7.6	9.5	11.5	13.4	15.3
4.00%	2.780	1.8	3.6	5.4	7.2	9.0	10.8	12.6	14.4

Note: to calculate monthly payment reduction, multiply the principal amount, in thousands, by the Payment Reduction Factor in the second column.

Table 6-1

WHY PEOPLE REFI–EQUITY

To build up equity: Reduction in term

- New interest rate: 7.0%
- New term: 15 years (180 months)
- Closing costs: $1,800
- Points: $1,200
- New mortgage balance: $101,500
- New mortgage payment: $914.11
- Remaining payments on present mortgage:

  $914.74 x 336 = $307,352.64
- Payments on new mortgage:

  $914.11 x 180 = $164,539.80
- Savings through term refinancing:
- $307,352.64 (-)$164,539.80 =$142,812.84
- *The home owner saves over $140,000 in interest over the term of the mortgage! (again before taxes)*

- Original mortgage balance: $100,000
- Original interest rate: 10.5%
- Present mortgage balance: $98,500
- Remaining mortgage term: 336 months
- Present mortgage payment: $914.74

In this case, the homeowner is using the monthly savings from the lower interest rate towards a reduction in term. If the interest rate reduction is great enough, the applicant can reduce the term by 10 to 15 years without increasing the monthly payments on the mortgage.

Does not mean that they can not invest this money.

WHY PEOPLE REFI-EQUITY

Effect of Monthly Payment on Typical $100,000 Loan at 7%, 30-Year Amortization

Extra Payment	Principal & Interest	Months to Payoff	Years to Payoff	Total of Payments	Interest Savings
$0	$665	360	30.00	$239,511	$0
$20	$685	328	27.33	$224,477	$15,034
$50	$715	291	24.25	$207,856	$31,655
$75	$740	267	22.25	$197,412	$42,099
$100	$765	247	20.58	$189,003	$50,508
$150	$815	217	18.08	$176,192	$63,319
$200	$865	193	16.08	$166,814	$72,697

Table 6-3

Note: Calculations do not take into account investing the payment savings over the term for the remainder of the term of the mortgage (from 15 to 30 years or from 20 to 30 years).

WHY PEOPLE REFI—SECURITY

- *Security: Change in loan type*
  - Many were surprised of the importance of negative amortization, margin and index
  - For example, LIBOR index has been much higher than "Treasury" alternatives.
  - Loan Amount $300,0000. One Year Adjustable. Start rate of 4.0%.
  - Worst case may be 10% in just three years.
  - Starting payment of $1,431. At 10% it is $2,634. Increase of $1,203 or 80%!
  - Index rates are low now—but will they be in three years?
  - Time to convert to a fixed rate is when rates are low—not after they go up.
  - You can't measure the value of piece of mind
- *Change in loan type can also have other benefits*
  - Go from a fixed rate to an adjustable to achieve lower payment. This is more likely when the spread is wide between fixed and ARMs (may be a factor soon).
  - You could actually use the savings to build equity (shorten the term)
  - You could also move from an ARM to an ARM (five year in the fourth year—move to another five year.

WHY PEOPLE REFI—CASH OUT

- *Range of Benefits*
  - Consolidate debts (lower payments/maximize tax deduction
  - Invest in other properties or other investments
  - Fund a retirement plan
  - College education
  - Purchase a car
  - Savings—security in case of loss of job
  - Fund maternity leave or other leave of absence.

WHY PEOPLE REFI—CASH OUT

Debt consolidation example

Loan	Monthly Payment	Balance
Credit cards	$250	$ 5,000
Auto loan	$500	$15,000
Personal loan	$250	$10,000
Personal loan	$300	$ 5,000
Totals:	$1,300	$35,000

Mortgage payment $1,000 (PITI)
Total debt payments $2,300
Total debt: $100,000 Mortgage
$ 35,000 Debts
$135,000

New Loan $140,00 (includes closing costs)
New Rate 6.0% Old Rate 8.0%

New Payment 1,040 PITI
Savings $1,260 monthly!

Issues:

- You are now "spreading" the payments over 30 years. Savings 75,000 over five years. But negative after that—will wipe out savings and perhaps cost client after a certain time.
- Solution: how about using some of the savings to reduce the term of the loan (for example 20 year)? **Message: Refis can have more than one objective.**
- Lower appreciation environment—less people have equity in their home and lenders have tightened on cash out
- 2nd mortgage is an alternative if there is little interest savings on first (depends upon size of 2nd). However, seconds are more difficult to obtain in today's market as well.

PROGRAM REQUIREMENTS—FHA

- Simple rate and term refinances—97.75% LTV without MIP (FHA to FHA or Conventional to FHA)..
- Streamline refi with appraisal—97.75% LTV without MIP (FHA to FHA)
- Streamline refi without appraisal—N/A LTV (FHA to FHA)
- Cash-out refinance: **Just changed to 85% across the board.** 2 appraisals for above 417,000 in declining area. Must have owned for one year to use current appraisal Non-owner occupant borrowers cannot be added to qualify. Can't be delinquent.
- FHA secure program for delinquent mortgages has been eliminated in favor of FHA HOPE program. HOPE program has not been popular because relies upon lender principal reduction.
- Major advantage: Can subordinate existing 2nd without affecting LTV.
- Max $500 cash back on non-cash-out.
- Mortgage must be current (can refinance up to 2 months delinquency on a streamline—if lender will allow).
- **Here is the catch-lenders can have more stringent requirements than FHA.**

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 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
$1,350	New MIP (1.50% of base mortgage amount)
($ 950)	MIP refund from old mortgage
$93,000	Base mortgage amount
$93,400	Mortgage amount including new MIP ($1,350 - $950)

PROG. REQUIREMENTS FANNIE MAE

- Streamline refis replaced by President's Affordable Refinance Program.
- Cash out now limited to 85% LTV. 75% if under 660 score .
- Cash out 75% on second home and investment properties
- Must have owned home for six months for cash out
- Properties listed within the past six months are limited to 70% LTV (65% for manufactured homes), unless owner certifies they intend to occupy as their primary residence.
- Limited (no cash out) refinances restricted to 95% owner occupied, 90% second homes and 75% investment properties.
- Lower LTVs for 3-4 units
- Special "continuity of obligation" requirements
- Maximum debt-to-income ratio 45% for manually underwritten loans

FANNIE MAE LTV CHART

Standard Eligibility Criteria: Maximum Allowable LTV, CLTV, HCLTV Ratios and Minimum Credit Scores for FRM, ARM and Balloons (Manual Underwriting)
Note: Excludes *MyCommunityMortgage, HomeStyle Renovation, Streamlined Refinance Products,* and *Jumbo-Conforming Mortgages.*

Transaction Type	Number of Units	Maximum LTV/CLTV[1]/HCLTV	Minimum Credit Score[2]
PRINCIPAL RESIDENCES			
Purchase Money Mortgage (PMM) *and* Limited Cash-Out Refinance (LCOR)	1-unit No Co-ops	95%/95%/95%	660 if > 75% 620 if ≤ 75%
	1-unit Co-op[3]	PMM = 95%/(N/A)/(N/A) LCOR = 90%/(N/A)/(N/A)	660 if > 75% 620 if ≤ 75%
	2-units	95%/95%/95%	680 if > 75% 620 if ≤ 75%
	3-4 units	75%/75%/75%	640
Cash-Out Refinance[4] (COR)	1-2 units No Co-ops	85%/85%/85%	660 if > 75% 620 if ≤ 75%
	1-unit Co-op	85%/(N/A)/(N/A)	660 if > 75% 620 if ≤ 75%
	3-4 units	75%/75%/75%	680
SECOND HOMES			
Purchase Money Mortgage (PMM) *and* Limited Cash-Out Refinance (LCOR)	1-unit No Co-ops	90%/90%/90%	660 if > 75% 620 if ≤ 75%
	1-unit Co-op	PMM = 90%/(N/A)/(N/A) LCOR = 75%/(N/A)/(N/A)	660 if > 75% 620 if ≤ 75%
Cash-Out Refinance[4] (COR)	1-unit (No Co-ops)	75%/75%/75%	680
INVESTMENT PROPERTIES			
Purchase Money Mortgage (PMM)	1-2 units	85%/85%/85%	680 if > 75% 620 if ≤ 75%
	3-4 units	75%/75%/75%	660
Limited Cash-Out Refinance (LCOR)	1-2 units	75%/75%/75%	620
	3-4 units	75%/75%/75%	660
Cash-Out Refinance[4] (COR)	1-2 units	75%/75%/75%	700
	3-4 units	70%/70%/70%	680

HOME AFFORDABLE REFI

- 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. ($250 max cash)
- No short-term adjustables, temp. buydowns or conversion from fixed to adjustable.
- Any types of properties approved by agencies.
- Any types of transactions: owner-occupied, second homes, or investors.
- Home can be listed for sale (Fannie Mae)
- No seasoning requirements

HOME AFFORDABLE REFINANCE-CON'T

- *For Freddie Mac:* **Must be originated by the servicer or an "Affiliate" of the servicer. See next slide.** Must have the mortgage file of the loan being refinanced. Must be 3 months seasoned with no 30—day lates in past 12 months (or for the term of the mortgage if less than 12 months). Must be manually underwritten. Seller to warrant value using a new appraisal or AVM or statement that value has not dropped from original value. Freddie Mac "look-up" link: https://ww3.freddiemac.com/corporate/
- *For Fannie Mae:*
  - DU Refi Plus: can be done by any Fannie Mae approved lender using DU (does not have to be the servicer of the loan). Enhancements to DU will be available by May 2, 2009. Ineligible recommendation allowed for LTV or minimum representative credit score. Follow appraisal requirements required by DU. Full income documentation.
  - Refi Plus: loans can be manually underwritten but must be originated by the servicer. Servicer can represent value has not dropped or if not, full appraiser for estimated LTVs over 95% and full appraisal or exterior only for LTVs under 95%. Can use verbal VOE and no debt-to-income ratios calculated, but lender must determine borrower has ability to repay.
  - No subprime, Alt-A, reverse, second or government loans
  - No seasoning required and no minimum credit score requirements
  - Fannie Mae "look-up" web link http://www.fanniemae.com/homepath/homeaffordable.jhtml

FREDDIE MAC ANNOUNCEMENT

June 5th announcement: To make Relief Refinance Mortgages more broadly available in the market and give borrowers more choices when refinancing, we are previewing the new Freddie Mac Relief Refinance Mortgage – Open Access. We are in the process of finalizing our requirements for this offering and will be communicating detailed origination requirements and an effective date for Freddie Mac settlements in a future Guide Bulletin.

LLPA'S BY LOAN PRODUCT

LLPAs are Cumulative	LTV Range								
Feature	≤ 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%
ARM	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.25%	0.25%
High-balance mortgage loans - ARM	0.75%	0.75%	0.75%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
40-year term (MBS only)	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%
Manufactured Home	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Condominium and Cooperative Properties[1]	0.00%	0.00%	0.00%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Investment property	1.75%	1.75%	1.75%	3.00%	3.75%	3.75%	3.75%	3.75%	3.75%
2 unit Property	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
3-4 unit Property	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
High LTV[2]	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.50%	1.00%

LLPA'S BY CREDIT SCORE

Representative Credit Score	LTV Range[1]								
	< 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	-0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
720 – 739	-0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
700 – 719	-0.25%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
680 – 699	0.00%	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%	0.50%	0.50%
660 – 679	0.00%	1.00%	1.50%	1.75%	1.75%	1.75%	1.75%	1.25%	1.25%
640 – 659	0.50%	1.25%	2.00%	2.25%	2.25%	2.25%	2.25%	1.75%	1.75%
620 – 639	0.50%	1.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.50%	2.50%
< 620	0.50%	1.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

ADJUSTMENT TO LLPAS

Fannie Mae is implementing a maximum cap of 2.00 percent on the total LLPAs and Adverse Market Delivery Charge assessed on Refi Plus and DU Refi Plus mortgage loans. This cap will reduce the cost of refinancing for some borrowers, which should help more borrowers take advantage of the refinancing benefits provided by Fannie Mae's Home Affordable Refinance options. (Freddie announces same on June 5th)

PROG. REQUIREMENTS VA

- VA "IRRRL"—"Interest Rate Reduction Refinancing Loan" VA to VA refinance.
- The interest rate must be lower unless refinancing out of an ARM
- No appraisal, credit information, or underwriting is required.
- Payment must be lower unless converting an ARM, term is being shortened or energy efficiency improvements are being included (up to $6,000).
- If payment increases by 20% or more—veteran must qualify
- The funding fee is only 0.5% and there is no mortgage insurance on VA loans.
- Only two discount points can be included in loan amount
- Loans more than 30 days past due must be submitted to VA for approval. Can include past due in loan amount. **Remember, that does not mean lender will do loan.**
- If loan amount increases to include closing costs—guaranty will also increase (issue at maximum guaranty).
- Maximum loan term is original term plus 10 years not to exceed 30 years.
- 2nd liens can be subordinated and Veteran must still be on loan
- It can be rented out. But must have previously occupied as primary residence.
- Regular refinances (including cash-out) with unused guarantee are at 100% of LTV at maximum VA loan amount—moved up from 90%.

FHA VS. CONVENTIONAL

- Lower LTV—FHA you still pay mortgage insurance.
- FHA can't use a second to eliminate mortgage insurance.
- FHA maximum loan amount in some areas are lower.
- Conventional has pricing premiums for lower scores, 3-4 units and cash out, FHA does not (lenders can add).
- With FHA streamline—you can do an investor refi—no doc and same rate (if investor allows)
- FHA they get an assumable loan.
- FHA base ratios are higher—31/43
- FHA LTV 97.75 is higher (except President's new program)
- FHA can subordinate the second over 100% LTV (exception---home affordable refinance)
- FHA Streamline: complete no doc loan—even for investors

ADDITIONAL CONSIDERATIONS

- Right of Rescission
  - Owner-occupied loans only
  - Full three days : Close Monday, fund Friday (Saturday usually rescission day-not funding day)
  - Most lenders—must fund loan before lock expires
  - May be waived for financial hardship—but definition has never been clear
  - If client rescinds, then all fees paid are refunded.
- Even though it was previously industry practice—early TIL and GFE were not required for refinances—however they will be with new federal rules effective July 1
- Watch for extra month—when client purchases a home they pay interest in arrears. When they pay it off through refinance, they owe that extra month, but will have lagging payment on new loan. Balance is higher than you think!
- On FHA and VA loans being paid off, lender can collect interest until the end of the month—must time closing correctly.
- Subordination of existing second—do not assume this can be done quickly—many banks are slow—especially today. Check before you lock the loan.
- Service: You are the Realtor on refinances—there is no one else to work on insurance, title company and make sure the deal is moving towards settlement.
- Make sure you know all lender rules: such as home for sale and cash out restrictions, including seasoning requirements for seconds

MARKETING FOR REFIS

- Rates even though they are up in the past few weeks—still very low.
- Start with your sphere. The marketing is less expensive than general advertising. Referrals will be easier to close than cold calls off of advertising. More effective & less costly!
- If you do advertise—watch what you promise. The ad that brings in the most calls may be the least profitable. (advertising to your sphere is cheaper!)
- Remember synergy rule number 1—every action should have more than one goal (look for refis in every situation). This is especially true for ads and the application process—law of selective perception. Remember, every refi has a Realtor.
- Where in your sphere?
  - Previous customers (not only present industry)
  - Previous prospects
  - Top referral sources: CPAs, CFPs, Realtors, employers.
  - Your personal sphere—this ever happen to you?
  - People who used to be in the industry and are no longer
- Other marketing besides advertising— social networking sites?
  - How about a refinance seminar? Lower your payments now! Overcoming credit obstacles to lower your payment. Excellent topic for FDI members.
- Email marketing—does your newsletter system have a response mechanism?
  - NewsletterPro System has an Special Report on the reasons for refi as well as flyers.

INCREASING RESPONSE

- The way you elicit response will determine how easy it is to convert
  - How hard is it..to convert a cold call vs a strong referral?
  - Therefore, you must look at your marketing first
- Create a sense of urgency
  - Not just— "if you act now"
  - Timing may be everything in your marketing: example, watch legislation that may adversely affect their future ability to qualify
  - Rising rates always has people jumping into the market.
- Response mechanisms—we will come back to these
  - Free reports
  - NewsletterPro Marketing System
- Differentiate yourself
  - Social proof- have testimonials
  - Guarantees—not only rate and/or money back

LEAD CONVERSION SKILLS

- Create a great first impression
  - Typically that impression may be made by voice mail or email.
  - What does your voice mail message or email signature look like? Does it look/sound like everyone else?
- Do not answer the phone unless you are ready
  - People respond to how you say it has much as what you say.
- Know what you are going to say…
  - Not talking about scripts here—but conversation practice. PERSONALIZED!
  - The person asking questions controls the conversation
  - For example—Rate vs. payment on refinances
  - The key is listening skills—and you can't listen unless they are talking
- Practice—you do not get a second chance. How much role-paying do you do right now? Do you know how to role-play?
- The number one key? Follow-up!
  - Speed wins every time
  - Not just the short-run—but the long-run too.

CONVERTING REFINANCE LEADS

- First goal—convert the conversation from rate to payment. You should never say the word rate!
  - What payment are you looking for?
- Deal with procrastinators…I will wait for rates to go down to….Special Letter in NewsletterPro System!
  - Calculate their present savings
  - Calculate the cost of waiting
  - What is their gain if rates move down another .125%? Give it to them after taxes.
  - Offer a guarantee—if rates move down more than x amount after you refinance, I will redo your loan for free.
- Deal with excuses..I have to talk to my spouse
  - Would you like to set up an appointment for us to talk so you don't have to explain to them everything we have just spoken about?
- Talk in terms of benefits
  - Not $30,000, cash—but what they are going to with it.
  - If they are purchasing a car—talk about the car (they are not interested in a loan)
  - Benefits include security, retirement, building up of equity.
  - For example, if I could show you how to pay your loan off 10 years early saving tens of thousands of dollars—without changing your present payment, would you be interested?
- Gain their trust—don't fire out questions such as: what is your score, how much do you make, Find out about them—what motivates them?

REFI CHALLENGE #1: CREDIT ISSUES

- Low credit score can eliminate being able get a loan completely (Conforming and FHA minimums keep going up)—or just raise the rate making the refi not cost effective.
- Example 6.5% rate. Market Rates 5.0%. Credit score 600. Fannie PPLA moves the rate up to 6.0% from 5.0%. Now refi is not cost effective with other closing costs.
- Solutions? You can tell them to go away and come back when their score is up (what is the chance that will happen?) Or, you can spend your time fixing the credit. This is a terrible idea…takes away from your time marketing & selling.
- Or, You can give them a solution in which---
  - An expert, not you, does the credit repair.
  - The solution is comprehensive—they can work on budgets and reducing debts so that more prospects can be helped.
  - The solution is long-term—they will continue to have their credit monitored and fixed over the long-run, optimizing their score—because you want them to be in position as a long-term client.
    And you get paid residual.
- In other words—you get more loans closed and you get residual. The solution is Financial Destinations (FDI) www.HershmanFinancialGroup.com

CHALLENGE # 2 LOW VALUE

- Best program. FHA (Also VA)
  - FHA to FHA—don't have to worry about LTV;
  - Conventional to FHA: 97.75% AND you can re-subordinate seconds above that.
- Direct loan modification with lender—they can lower rate whether loan is reduced or not.
- If investor won't let lender modify—can do a short refi. (adverse affect on credit).
- Another alternative—have them borrow to get the loan amount down. Example,
  - 320,000 loan 7%. 300,000 value FHA loan @ 290,000 5.0%
  - Need to borrow 30,0000
  - 290,000 at 5.0% is 1,557
  - 320,000 at 7.0% is 2,128
  - Savings of $571 per month! (does not consider mortgage insurance)
  - Lets say they borrowed 30,000 at 10%. $250 in interest per month. Debt service is 321 per month. They could have it paid off in about 5 years!
  - My rule always has been—don't mess up the larger loan so you can borrow 10,000 or $30,000 more!
  - Obviously works only for those who have access to money (relatives, good credit).
- Can't work a solution? Back to FDI—it also has a general debt reduction plan. www.HershmanFinancialGroup.com

CHALLENGE # 3 INCOME VERIFICATION

- So many obtained "no-doc" loans
- Best solution again FHA (also VA)
  - FHA to FHA—don't have to worry about income at all
  - Conventional to FHA—allows non-owner occupant co-borrowers. Just need to show the person in the home can make the payment—but no minimum ratio.
  - Note: Remember lenders can be stricter than FHA
  - Again the President's plan
- Direct loan modification with lender—many banks do not use ratios or standard documentation (can use bank statements, etc.)
- If you are interested in originating loan modifications—email me.
- Become an expert in documenting self-employment income---CMA Webinar.

We would love to add any techniques or solutions that you have!

FINANCIAL DESTINATION

FDI—One Answer to challenges

- 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—you can chose—just refer deals in without joining. Or when you join as a rep—you get $20 monthly for each client that participates! (rep cost a one time fee in addition to joining as a member)
- More information: www.hershmanfinancialgroup.com
- 24/7 Webinar: http://fdi.originationpro.com/
- Live Webinar (Thursdays) www.originationpro.com

NEWSLETTERS

Ultimate Value Delivery

- Expertise. Portray you as an expert —no handy homeowner hints— Test--Realtor Sales Meeting
- 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

Enterprise Pricing— For A Complete Training & Marketing Program

$39/Mo For One User
$34/Mo For 2-5 Users
$29/Mo For 6-10 Users
$24/Mo For 11-24 Users
$19/Mo For 25 Or Over

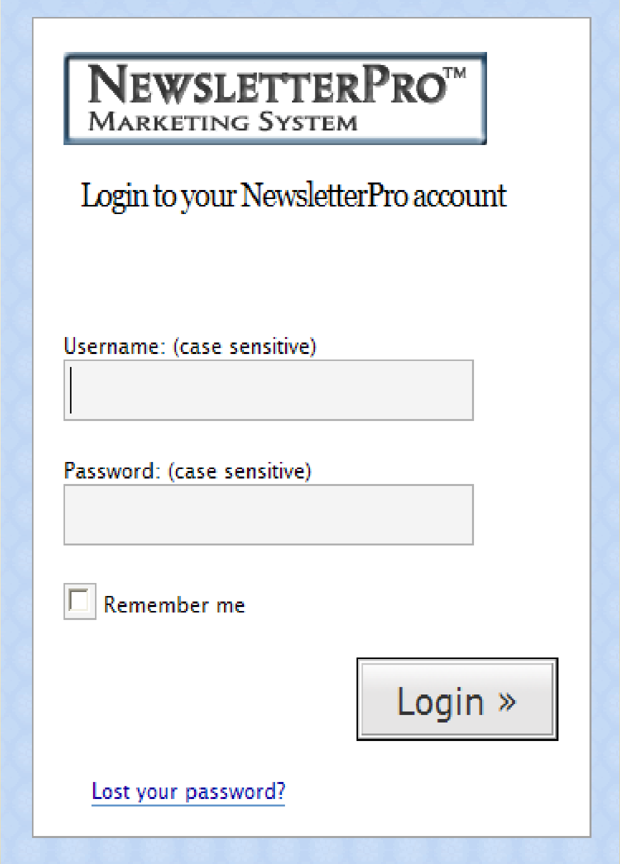
Email Dave@hershmangroup.com
or call 1-800-581-5678

WHY NEWSLETTERPRO?

All these pieces—and more for one low price!

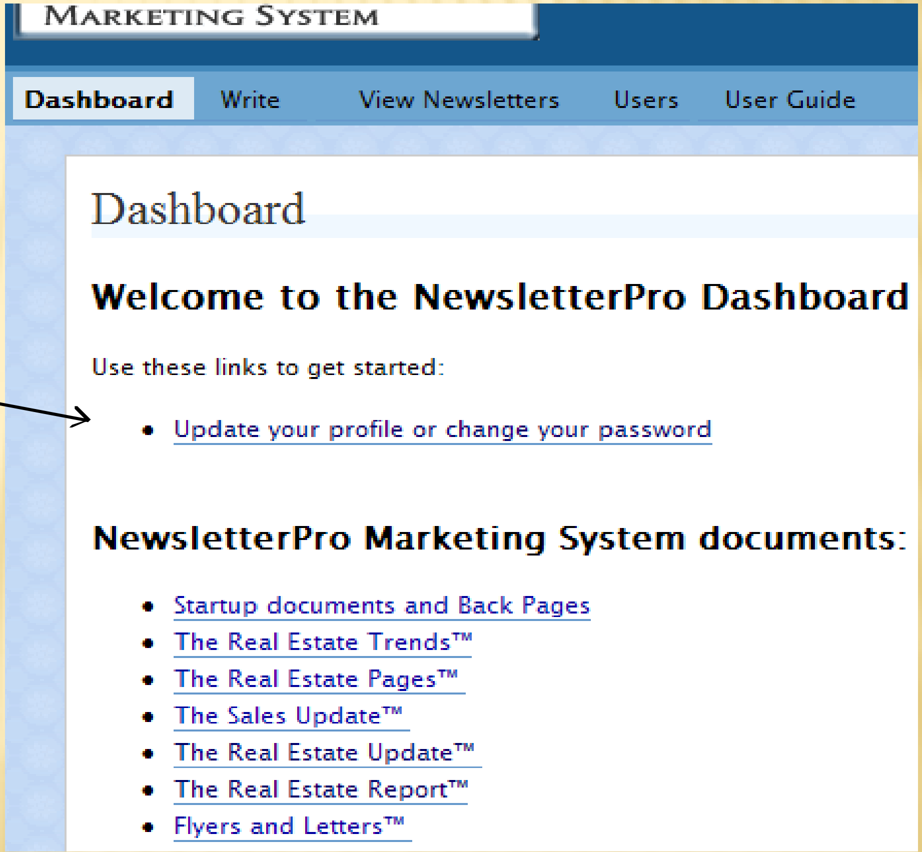
FIRST

Log In


NewsletterPro™
Marketing System
Login to your NewsletterPro account
Username: (case sensitive)
Password: (case sensitive)
Remember me
Login »
Lost your password?

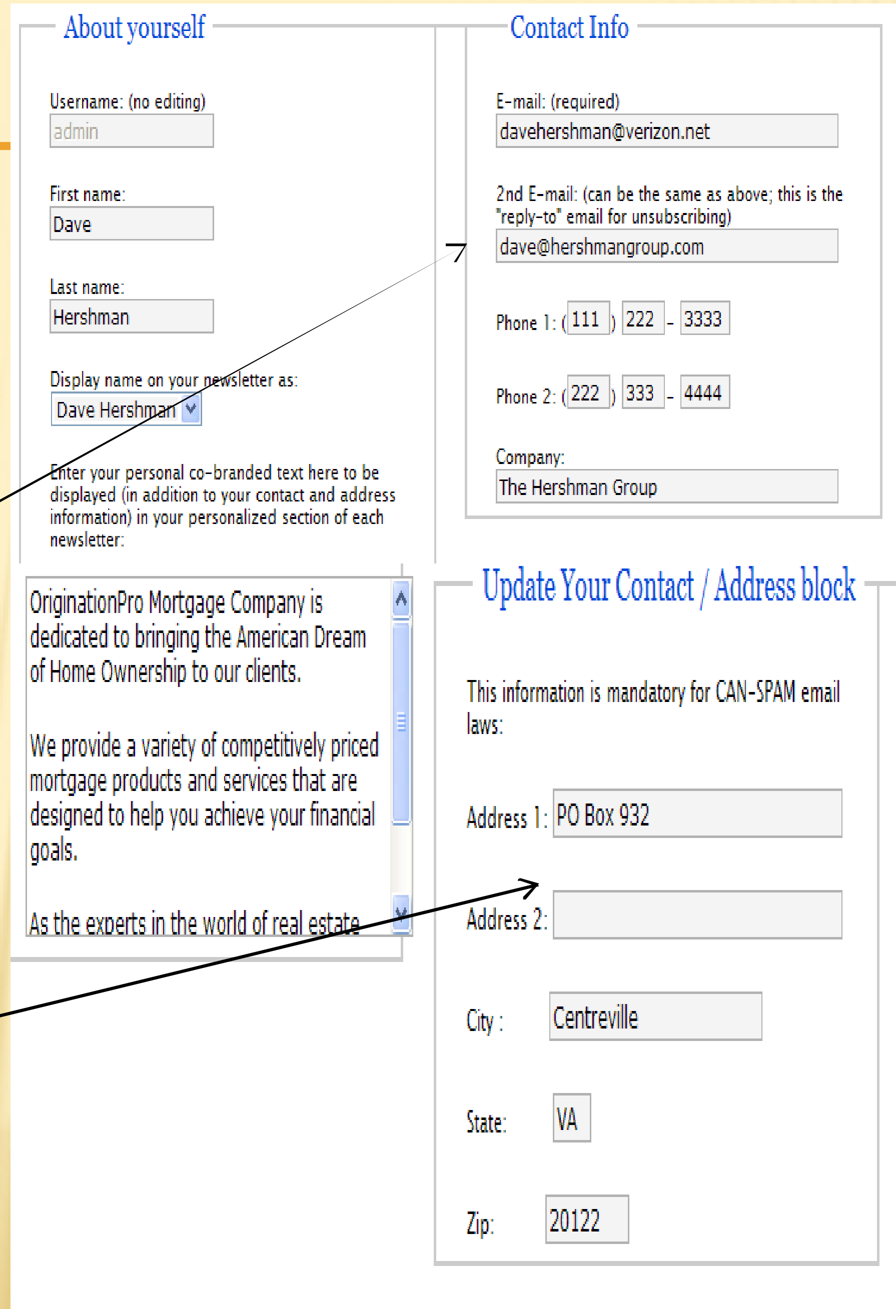
THEN..

Go to Update Profile



STEP ONE

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

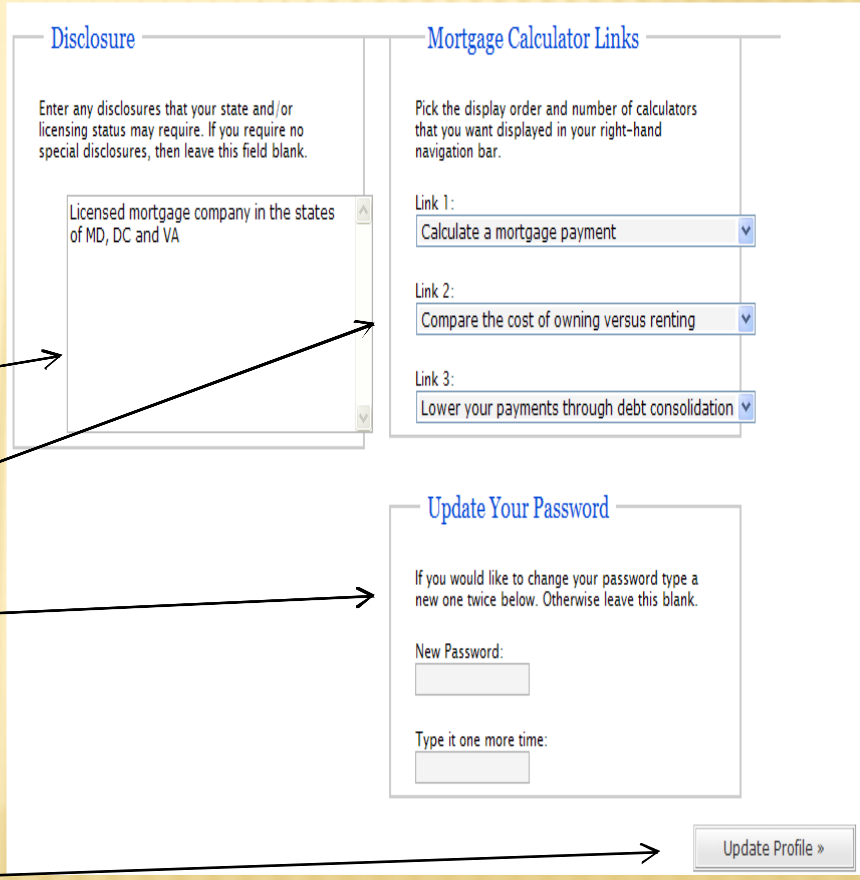


STEP ONE—PART TWO

On same page you can update your

- Disclosure
- Choose calculator links
- Change your password

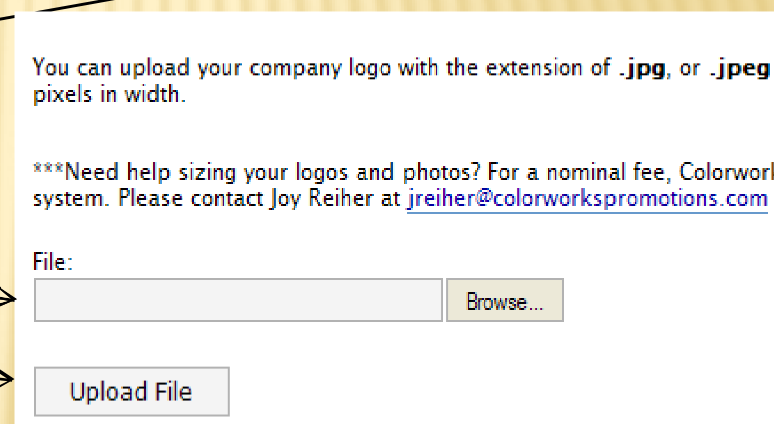
Don't Forget To Hit "Update Profile" Button



STEP TWO

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

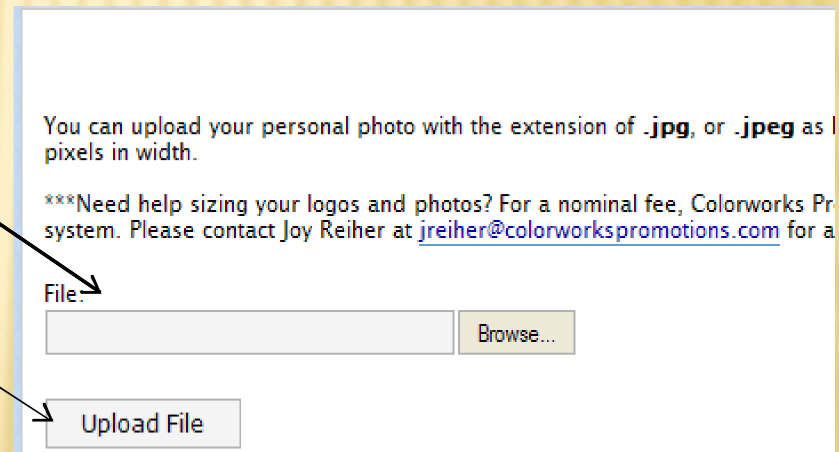
- Click on "Company Logo" on profile page
- Locate your logo on your hard drive to upload
- Click "Upload File"
- Make sure the logo no larger than the size specified



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



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 4.86%, 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 1981. Consequently, first-time homebuyers accounted for half of existing home sales in the first three months of this year, the NAR reported."

Current Indices For Adjustable Rate Mortgages

ORIGINATIONPRO™
Power Tools for Mortgage Professionals

Dave Hershman, CMC
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.

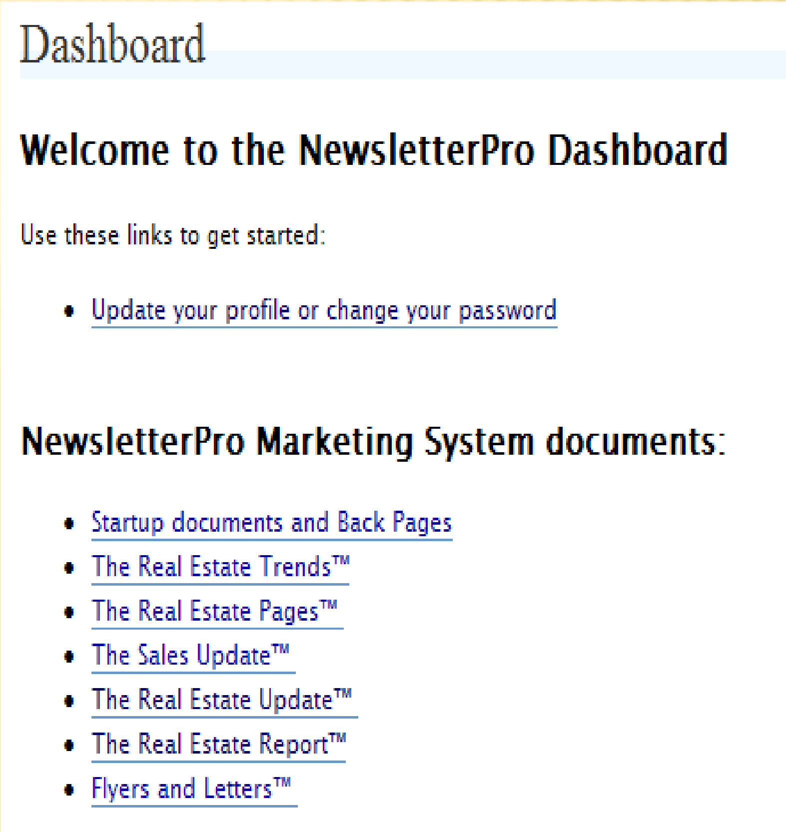
We provide a variety of competitively priced mortgage products and services that are designed to help you achieve your financial goals.

As the experts in the world of real estate finance, we can help you achieve your goals with less stress, making your American Dreams Come True!

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



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 O
encouraging 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

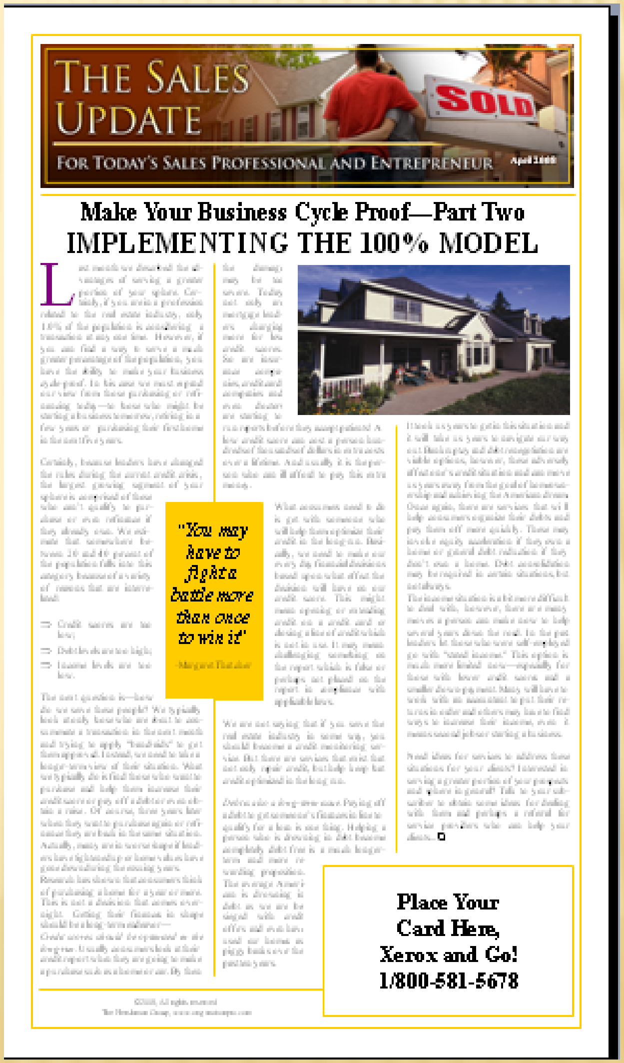
Back Page #1 for Legal Size Newsletters Publisher Version

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 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

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

"You may have to fight a battle more than once to win it"

Place Your Card Here, Xerox and Go! 1/800-581-5678

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

THE REAL ESTATE TRENDS

- One page print document
- Legal size
- Can be turned into a mailer or PDF
- Industry news, economic commentary, charts

BONUS FLYERS & LETTERS

- We can produce flyers and letters that are topical for every environment
- We integrate response mechanisms into the flyers so they can call for articles or special reports
- More than a Newsletter—we offer a complete marketing system

WHAT WE COVERED TODAY…

- What is a refinance?
- Purpose of refinances
- Program requirements
- Additional technical considerations
- Marketing refinances
- converting refinance prospects
- Overcoming refinance challenges
- NewsletterPro System—special refinance marketing.

Are you ready to take action?

MY GIFT TO YOU…

If you stay a member of the NewsletterPro and
after the 30 day trial period
—after six months you will be eligible for
Certified Mortgage Advisor Certification
Questions or have not received password?
Email us at success@hershmangroup.com

Also—want my OriginationPro Mortgage School DVDs or Complete Mortgage Management or Marketing Kits?
NewsL200 for $200 off!

www.OriginationPro.com