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MORTGAGE PLANNING FOR MORTGAGE ADVISORS—PART II

Dave Hershman
OriginationPro
A Certified
Mortgage Advisor
Webinar

Comparing Mortgages...



DAVE HERSHMAN

- ✘ 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

OUR GOALS TODAY

- Legislative Update
- What is a certified mortgage advisor
- Summary of Part I (it will be repeated)
- ✘ Comparing point options
- ✘ Comparing different loan terms
- ✘ Comparing mortgages over future scenarios
- ✘ Comparing mortgage combinations
- ✘ Qualifying concepts: focus on suitability and overcoming obstacles
- NewsletterPro System

**And
Coaching
—Q&A
on any
topic**

LATEST NEWS ON THE HOUSING FRONT

- Bill introduced to put an 18 month moratorium on HVCC.
- Freddie Mac will allow “open access” to Home Affordable Ref Program:
 - Allowing the new refinance mortgage to be assessed through Loan Prospector.
 - Requiring a full interior/exterior appraisal for the new refinance mortgage. Please note that use of Home Value Explorer® point value estimates will not be permitted with the new Relief Refinance Mortgage – Open Access. (AVM Model)
- Fannie Mae eliminates trailing spouse income, tightens age of credit docs & highly recommends lenders get income documentation from IRS before closing,
- Senate bill introduced to increase tax credit to \$15,000 and extend effective date. Also would expand eligibility to all buyers (not just first time buyers).
- PMI to allow underwater borrowers to refi by keeping their policies in place.
- VA increases allowable appraisal fee by \$50 to allow for the completion of conventional market conditions addendum.

MORTGAGE DISCLOSURE IMPROVEMENT ACT

- The expansion of the initial TIL disclosure requirement to include refinances as well as purchases.
- The requirement that the initial TIL be provided within 3 business days of application and at least 7 business days before consummation.
- **The requirement that a borrower receive a corrected TIL at least 3 business days before consummation—instead of at closing.**
- The different “business day” definitions that apply to the requirements. The early 3-day requirement is “days” the lender is open for business. The 7-day requirement and 3-day re-disclosure requirement definition is all days except Sundays and Holidays.
- There is a restriction on imposing fees before the borrower receives the initial TIL, except credit report fees.
- New notice requirement for the TIL disclosure: “You are not required to complete this agreement merely because you have received these disclosures or signed a loan application.”

FREDDIE MAC 09-18

- Consider income trends and the consistency of the income used to qualify the Borrower
- Obtain and analyze the Borrower's federal tax returns and business tax returns when the Borrower is self-employed
- If the self-employed Borrower is relocating to a different geographic area, the Seller must document and explain the determination that the Borrower's income will continue at the same level in the new location.
- If an Investment Property reflected on the Borrower's federal tax returns, must use the income reported on Schedule E of the Borrower's federal tax returns.
- May not consider income for qualifying purposes if have knowledge that, or the documentation indicates that the income is likely to terminate within the next three years
- Require a two-year history of receipt of income used to qualify the Borrower in most instances
- Requiring a written analysis of how the income was calculated
- Adding specific documentation requirements for different types of income.
- Permitting consideration of the income of a Borrower who has been employed for less than two years if the Borrower was previously attending school
- Permitting consideration of the income of a Borrower with less than two years of recent employment who is re-entering the workforce when the Borrower has been at the current employment for a minimum of six months and the documentation supports a previous employment history

FREDDIE MAC 09-18 CONTINUED

- Revising the Streamlined Accept documentation requirements for employed Borrowers to include either a written verification of employment (VOE) for one year (or alternative doc) and a verbal VOE not more than 10 calendar days prior to the Note Date.
- Requiring a verbal verification of employment for employed Borrowers not more than 10 calendar days prior to the Note Date.
- Requiring the phone number for the individual contacted, the dates of employment and whether the Borrower is currently employed for verbal verifications of employment. The phone number for the contact must be obtained from an independent third party source.
- Removing the option to provide an additional paystub in lieu of a verbal verification of employment for Accept documentation requirements (except for military income)
- Permitting verbal re-verifications only for verification of employment when updating the file
- Requiring evidence of liquidation if the funds from stocks, bonds, any part of a retirement account or other non-liquid accounts are used for the funds utilized
- Requiring evidence of the source of funds for a cash deposit
- Requiring a letter from an accountant stating that the Borrower has access to the funds for withdrawal and that withdrawal of the funds will not have a detrimental effect on the business when business assets are used for the transaction. The accountant cannot be an interested party to the transaction and cannot be related to the Borrower.
- Adding a requirement to verify the existence of the business through a third party source not more than 30 days prior to closing for a Borrower that is self-employed

FREDDIE MAC 09-18 CONTINUED

Comparable Sales

- The appraiser's selection of comparable sales is crucial to providing an accurate opinion of value based on market data. With respect to comparable sales, the appraiser must choose appropriate comparable sales, and certify that the comparable sales chosen are those most similar to the subject property. In underwriting the appraisal, the underwriter must consider whether any adjustments are supported and are reasonable. The amount and number of any adjustments must also be considered. Typically, the higher the amount of the adjustments or the number of adjustments the more likely the comparable sales might not be representative of the subject property. Freddie Mac does not have requirements about what comparable sales the appraiser is to use. For example, *we do not require appraisers to use Real Estate Owned, foreclosure or short sales. However, if the appraiser determines that these are representative of the properties available to typical purchasers for the market in which the property is located, appraisers must consider their use.*

125% CONFORMING REFIS

- Treasury authorizes at 125% for Fannie and Freddie
- Fannie Release 09-23: Home Affordable Refi
 - Refi Plus and DU Refi Plus both eligible
 - Still no maximum CLTV requirement if existing second is subordinated
 - Above 105% fixed rate fully amortized only
 - 15+ to 25 year amortized, total cap of LLPA is reduced to 1.5% from 2.0%
 - Benefit must include lower payment or more stable product
 - Loans delivered after September 1st.
- Freddie Mac Release 09-15: Relief Refinance Mortgages
 - Note dates on or after October 1, 2009 and before June 10, 2010.
 - Lesser of \$5,000 or 4% of principal for closing costs allowed.
 - Seasoned three months and no late payments in past 12 months
 - Permits refinances of junior lien if rate is reduced, amortization shortened or moving to a fixed rate
 - Same servicer origination (non-open access)—effective date is Sept. 1, 2009.
 - Delivery fee of 1.0% over 97% (total delivery fees still capped at 2.0% and credit score adjustments do not apply for same servicer origination).

LATEST NEWS ON THE FHA FRONT

- Chairman of MBA testifies before congress and recommends an increase in FHA net worth requirements—to \$150,000 for brokers.
- FHA Tax Credit for Down Payment Summary. ML 2009-15
 - Yes, for downpayment, if it is a secured second mortgage or loan provided by a government entity or non-profit (non-profit can't get money from seller or lender).
 - No, for downpayment if it is advanced by the lender. Can use for closing costs or above 3.5%
- New condo requirements coming effective October 1. Will include lender delegated review and 30% maximum concentration of FHA financing ML 2009-19

SAFE ACT

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

SAFE ACT IMPLEMENTATION PLAN

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

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

Upgrade available-Includes MyMortgageCommunity & Velma

Velma/MyMortgageCommunity Trial Members: Welcome

WHAT IS CMA?

Certified Mortgage Advisor

- Ten webinars including today's. There is a choice of at four webinars for the tenth webinar.
- Includes three part planning/advisor course.
- Schedule on www.certifiedmortgageadvisor.biz
- Six months to attend all 10 courses (15 hours of training)--must attend LIVE!
- Certification page posted on dashboard of the NewsletterPro System with list of class dates so you can track. It is your responsibility to track!
- 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.**
- **You get to pick the topic for continuing education. First new webinar is Targeting Realtors to Increase your Purchase Market Share—Next Week! In August: Reverse Mortgages.**

SUMMARY OF PART I

- What does it mean to become an advisor?
- What do you have to know to become an advisor?
- Topic One: The real estate process
- Topic Two: Three economic reasons to own
- Topic Three: Rate advice
- Topic Four: Concepts of Prepayment

This will be repeated

COMPARING MORTGAGES

- A sales person gets this question—

What is your rate on a 30 year fixed mortgage?

- If we are going to be an advisor—we are going to get the question—

What is the best loan for me?

- And we need to give an answer

- If we could predict what will happen in the future, it would be easy..

- Rates

- Economic environment

- Their income

- How long they will use the mortgage (not stay in the home).

- Because we can't predict the future—we must look at different scenarios

- Remember-it is their decision and they have to live with that decision

COMPARING POINTS

30 Year 100,000 Mortgage

6% Interest Rate No points

5% Interest Rate 3 points* (\$3,000)

Payment difference: \$600

\$537

\$ 63 monthly

Time to recover cost

3,000 = 47.61 months or four years

63

**in this case points and closings costs are the same*

Analysis

- Use the mortgage one year: don't pay points
- Use the mortgage four years: break even
- Use the mortgage for over four years: pay points
- Note: does not take into account tax issues or the future cost of money vs. the present cost of money
- **Note: 2nd analysis. Compare interest difference only. \$500 – \$417 equals \$83. Breakeven is now 36 months. One could argue that the real “cost” is interest.**

SOUNDS SIMPLE....

- Mathematically it is very simple (if you strip out the tax and inflation issues).
- It does not matter whether the seller pays the points or the buyer—the buyer is paying!
- Analysis is more complex for refinances—if the points are rolled into the loan balance.
- Less YSPs available today...means more clients may be paying points.
- Then why does human nature make us do the opposite?
 - Rates are low—you can refinance at no cost!
Yet the loan is likely to last longer.
 - Rates are high—let's buy the rate down!
The loan is more likely to refinance.
- Speaking of which—what is it with a 15 year “no point” loan? It makes no sense!

COMPARING LOAN TERMS

100,000 Mortgage 6% Interest Rate (simplification)

	30 Year	20 year	15 Year
Payment	\$600	\$716	\$844
Additional	0	\$116	\$244
% Terms	0	19.3%	40.7%
Benefit	0	10 years	15 years
% Benefit	0	33.0%	50%
% Total Benefit	0	66.0% (10 out of 15)	100%

- People want a 15 year, but can't afford or qualify for it.
- Have you considered a 20 year mortgage, which will give you two-thirds of the benefits of a 15 year with less than 50% of the additional cost?
- Prepayment concept—every dollar of prepayment achieves less benefit
- This crisis has people realizing that paying down the mortgage is an important strategy to build up equity in times of lower appreciation
- Doesn't mean they can't invest the equity—but consider the psychological benefit

AN “ADVISOR” QUESTION

- Move up buyer
- Purchasing \$600,000 home
- \$300,000 in cash from previous home.
- “Classic” Conservative position: put \$300,000 down, keep mortgage payment low
- But is real conservative position to put, let’s say, 10% down?
 - Now they have \$240,000 in bank for emergencies. (if value goes down, there are plenty of reserves)
 - They can use the extra cash to pay the mortgage off more quickly
 - \$300,000 mortgage over 30 years
 - \$540,000 mortgage over 20 years
 - Extra payment is \$3,800 vs \$1800 (\$2,000)
 - \$240,000 funds 120 payments, or half the mortgage term
 - That does not include MI (2-3 years) and investment returns on the 240K
 - Real analysis would put it closer to 180 payments, or three quarters of the term.
- Not advocating this position-just asking the question...

MORTGAGES OVER TIME

- The issues go back to “how long they will use the mortgage” and what will happen with rates in the future, as well as their economic situation.
- For example, who would have thought that people would not qualify to refinance their home three to five years later?
- The comparison is easy with fixed rates and temporary buydowns—not so easy with adjustables. Who knew that the LIBOR and Treasury spread would widen so far? (not just predicting rates)
- Three future scenarios for adjustables:
 - The Worst Case Scenario—rates go up significantly. This is shown in adjustable rate disclosures (and now GFE). Basically, the mortgage goes up as fast as the caps will allow.
 - The Fully Indexed Accrual Rate Scenario—rates stay where they are today and teaser rates move up to fully indexed and stay there. This is the scenario described in TIL disclosures
 - The Historical Scenario. Rates fluctuate each year. We can’t predict the next five years, so we say, if you got this loan five years ago, this is what would have happened.

COMPARISON

Mortgages—Analysis Period 5 Years

6.0% Fixed Rate

4.0% One Year FHAARM

6.5% 2-1 Buydown

5.0% 3-1 FHA ARM

	Fixed	Buydown	One Year			3/1			Index
			WC	FIAR	HC	WC	FIAR	HC	
1.	6.0	4.5	4.0	4.0	4.0	5.0	5.0	5.0	2.50
2.	6.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0	3.00
3.	6.0	6.5	6.0	5.5	4.5	5.0	5.0	5.0	1.50
4.	6.0	6.5	7.0	5.5	5.5	6.0	5.5	5.5	2.50
5.	6.0	6.5	8.0	5.5	6.5	7.0	5.5	6.5	3.50
Average Rate			Initial index is 2.50			Margin is 3.00%			
	6.0	5.9	6.0	5.7	5.1	5.6	5.2	5.9	
Average Payment (\$300,000 Mortgage) Results are rounded									
	1,800	1,780	1,800	1,740	1,630	1,720	1,650	1,780	
Total Payments in thousands									
	108.0	106.8	108.0	104.4	97.8	103.2	99.0	106.8	
Total Payments Assuming 25% tax reduction (on TI, not just interest)									
	87.0	80.7	87.0	78.3	73.4	77.4	74.3	80.7	
Differential after taxes									
	0	-6.3	0	-8.7	-13.6	-9.4	-12.7	-6.3	

ANALYSIS....

- Comparing payment after taxes will lessen the differential between options.
 - The longer the analysis period, the more risk the client will average higher than a fixed rate alternative (at least with the worst case)
 - You need to know each of these--
 - Teaser rate (lower it is—more likely will move in the first year)
 - Adjustment rate cap
 - Life of loan cap
 - Margin—why it is so important
 - Payment Cap. If payment rate is lower than that what you owe, there is potential negative. A negative or positive? To purchase a home you can't afford that is actually a negative.
- Index—I YEAR “TCM” vs LIBOR
- 1 Year TCM (Constant Maturity)—
Average of all treasuries with one year left to maturity
- LIBOR—"London Interbank Offered Rate" is an average of the interest rates that major international banks charge each other to borrow US dollars in the London money market. It may not be related to rates on treasuries and may be affected by the value of the dollar.

COMPARING COMBINATIONS

A. \$100,000 Mortgage with Mortgage Insurance

6.0% .75% Mortgage Insurance

B 80,000 First at 6.125%

20,000 2nd at 8.0%

Average Rate: 80,000 x 6.125% = 4,900

20,000 x 8.00% = 1,600

6,500 div by 100K = 6.5% is the blended rate

Other considerations:

- Seconds harder to find today, obviously.
- Is Mortgage Insurance tax deductible (present deduction expires in 2010)
Compare the payment AFTER tax deduction is considered.
- Can rate adjust on 2nd mortgage?
- Mortgage insurance can be removed after 2-5 years (75% LTV at 2 years/80% LTV at 5 years). At 78% based upon regular amortization—cancellation is automatic.
 - Did they get the home below market?
 - Are they doing major work to the home?

MORTGAGE SUITABILITY

- Should someone purchase a home with no cash reserves?
- What about future changes in adjustables—what is their potential for income increases?
- If their credit is not good—do they know how to budget?
- How stable is their life? Divorce is a leading cause of foreclosure in normal times.
- How will their home help them with long-term goals such as retirement?
- This is where outside advice becomes important. Problem, many do not have financial advisors and if they don't have money to invest—then a typical financial planner will not work with them.
 - They need to have the best credit score not only to qualify—but to achieve the lowest payments on their mortgage and other bills
 - They need to make sure they have a plan to eliminate consumer debts.
 - They need to have a budget worked out with a third-party professional—this is not your responsibility and it helps to have an objective position.

FINANCIAL DESTINATION

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

- Professional credit restoration improvement—not a bandaid
- Debt reduction plan
- Unlimited budgeting and other financial advice (such as the tax benefits of owning) from CFPs and CPAs
- ✘ Cost? Less than most charge just for credit services. \$59 monthly. \$15 to join. No long-term obligation.
- ✘ Even better—when you join as a rep—you get \$20 monthly for each client that participates! (rep cost a one time fee of as little as \$99 in addition to joining as a member) Note: You can refer your clients without joining.
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- Written by the industry expert for over 20 years—to make you look like an expert but not be over the head of your readers. No recipes or bond charts.
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- Response mechanisms to make the phone ring.
- Coaching and Training by Dave Hershman (CMA certification)
- Only \$39 monthly for both NewsletterPro & the CMA training program with no long-term obligation.
- Need mail or email fulfillment system? You can upgrade to the VELMA personal marketing assistant—cost \$69 monthly
- **Just announced—Co-branding with Realtors and other partners. Free trial during month of July! Pick one or two Realtors to partner with for free.**
- **Soon to come: Financial Version**

NEW! CO-BRANDING OPTION

- You are the master account holder. You don't do anything because your account is already set up.
- The Realtor (or other partner) is given a "sub-account" with a user name and password. You will be sent that as well.
- You should help them set up their account---just logo, picture, contact and personal paragraph.
- Then on a weekly basis, they will receive the HTML with both sets of contact information on the right side.
- They can send it out to as many as they would like (more the merrier for you!).
- You can always access the system and view a copy or email it to yourself.
- They also will have access to all other documents through their subaccount.
- The free trial will run through the month of July.
- The cost will be \$19 per Realtor afterwards--however, if you want to purchase for several, we will have a group pricing quote for you.

WHY NEWSLETTER PRO?

All these pieces—and more
for one low price!

The collage features several newsletters:

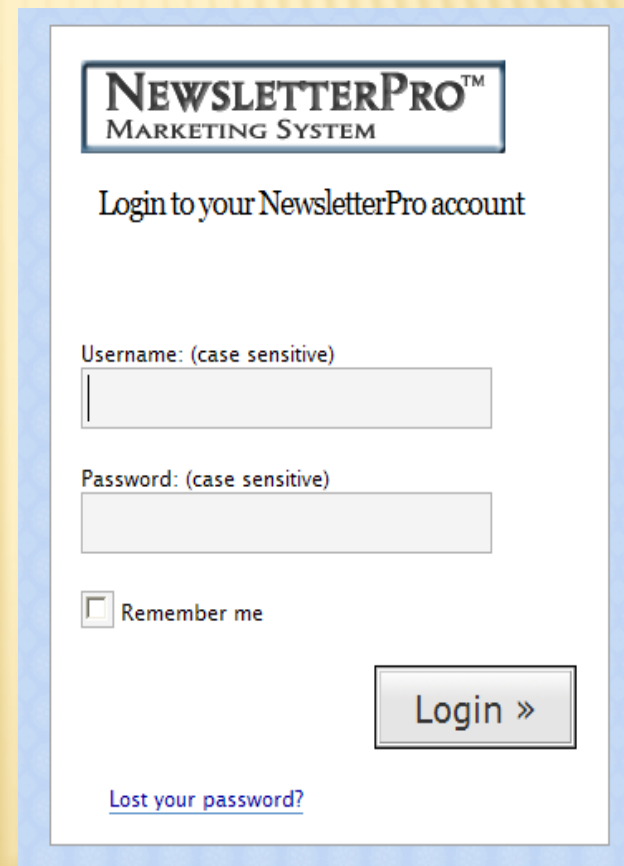
- Real Estate Trends** (June 2007): Includes articles like "How Much Is The Weather?", "Fewer Selling On Their Own", and "Homeowners Face Adjustments".
- REAL ESTATE REPORT** (June 8, 2007): Features an "ECONOMIC COMMENTARY" and a "Synergizing" graphic.
- FOR TODAY'S SALES PROFESSIONAL & ENTREPRENEUR** (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...".

Additional elements include a "FOR SALE BY OWNER" sign, a "SOLD" sign with a cartoon character, and various contact information for real estate professionals.

FIRST

*Did you get your
password and user
name?*

Log In



NEWSLETTERPRO™
MARKETING SYSTEM

Login to your NewsletterPro account

Username: (case sensitive)

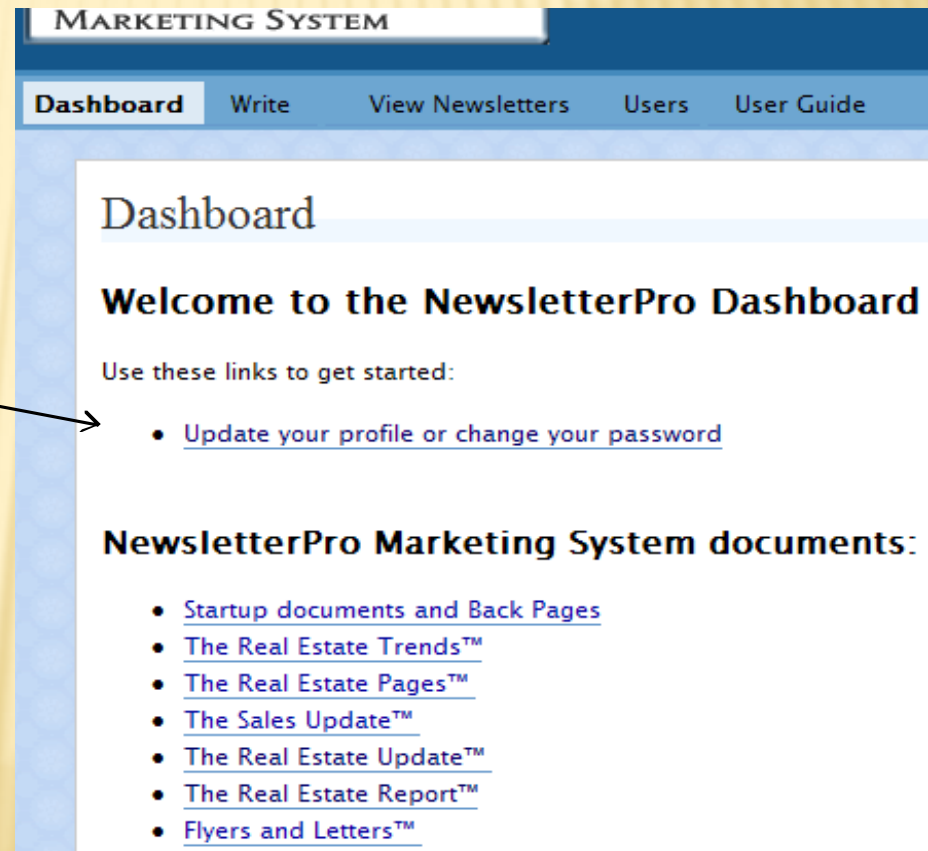
Password: (case sensitive)

Remember me

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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:

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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 web form with three main sections: 'Disclosure', 'Mortgage Calculator Links', and 'Update Your Password'. Arrows from the text on the left point to these sections and the 'Update Profile' button.

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 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 for a quote.

File:

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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- 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.
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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:

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

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THE REAL ESTATE UPDATE

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

REAL ESTATE UPDATE
Volume 2 Issue 9 September 2008

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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!

Gasoline

Regular	326.9
Plus	336.9
	346.9

Did You Know...
Residential 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, 2000

30 Year Mortgages	6.52%
2008 High (July 23)	6.52%
2008 Low (Jan 26)	5.48%
15 Year Mortgages	6.07%
5/1 Hybrid ARMs	6.03%
1 Year Adjustable	5.18%
10 Year Treasuries	3.85%

In This Issue
P2 Mortgage 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 saving a greater portion of your equity. Certainly, 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%, you're serving a much greater percentage of the population. You have the ability to make your business cycle proof. In this case, we need a capital source. From these professionals, our financing today—in home sales might be making a business loan more relevant in a few years or providing their first home in the next five years.

Certainly, finance leaders have changed the rules during the recent credit crisis. The largest, growing segment of your clients are people 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 is too high;
- ⇒ Income levels are too low.

The next question is—how do we serve these people? We typically look at two home sales that we need to understand a transaction in the next month and trying to apply “what-ifs” to get them up to speed. We need to take a longer-term view of their situation. What we typically do is find those who want to purchase and help them finance that credit score to pay off a debt or even obtain a rate. Of course, three years later when they want to purchase again or refinance they are back in the same situation. Actually, many are in severe shape if lenders have a big headache or home values have gone down during the last five years. Research has shown that an investor's risk of purchasing a home for 31 years or more. This is not a statistic that scares everyone. Getting their finances in shape should be a long-term endeavor—

Circle's answer should be explained in the long run. Actually, we can make look at that credit report when they are going to make a purchase to do a home or are they that



What assumptions need to be made with someone who will help them get their credit in the long run. Basically, we need to make sure they're financial discipline based upon what affect the decision will have on our credit score. This might mean signing an existing credit on a credit card or doing a line of credit which is not in use. It may mean changing something on the report which is false or perhaps not placed on the report in accordance with applicable laws.

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"You may have to fight a battle more than once to win it!"
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- ✗ 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?

❑ How is this home for the activities 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 a rate 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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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 bought 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



Come Get Your \$7,500!

Now comes the time to be excited 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.

Population Projections

What are the most recent releases of population projections projected over the next 50 years? The country's changing racial composition due to the massive outflow 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 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. □

Tax Credit

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 the financing problem stemming from the crisis on Wall Street, not 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

Contact Me for My Free Report...

WHAT WE COVERED TODAY....

- Legislative Update
- What is a certified mortgage advisor
- Summary of Part I (it will be repeated)
- ✘ Comparing point options
- ✘ Comparing different loan terms
- ✘ Comparing mortgages over future scenarios
- ✘ Comparing mortgage combinations
- ✘ Qualifying concepts: focus on suitability and overcoming obstacles
- NewsletterPro System

NEXT PLANNING SESSION

- ✘ The advisor approach—selling without rates
- ✘ Sales and lead conversion skills
- ✘ Key marketing concepts
- ✘ Marketing other experts through your sphere
- ✘ Better than homebuyer seminars: Advisor Seminars
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