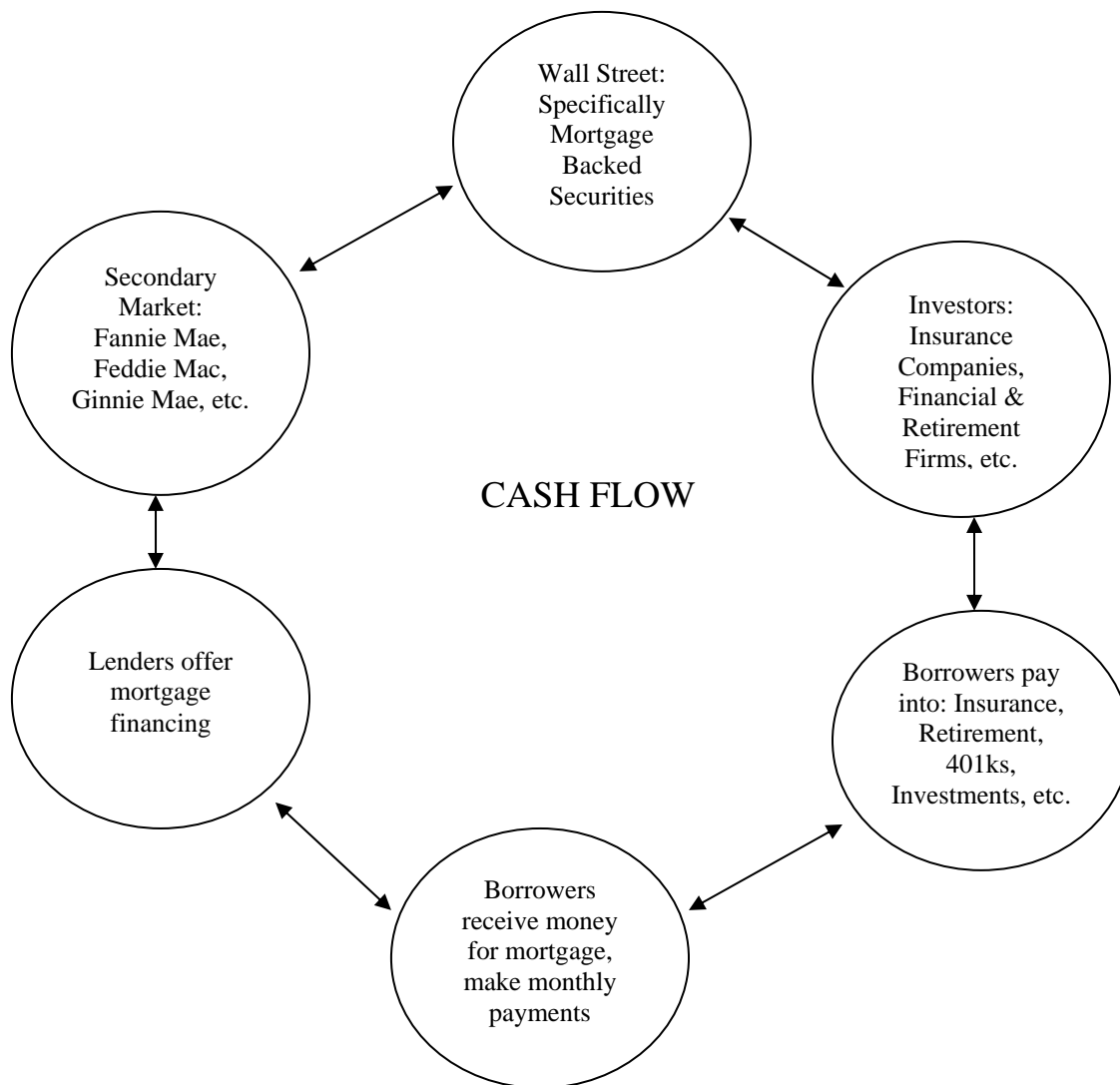


THE MAGICAL WORLD OF MORTGAGES

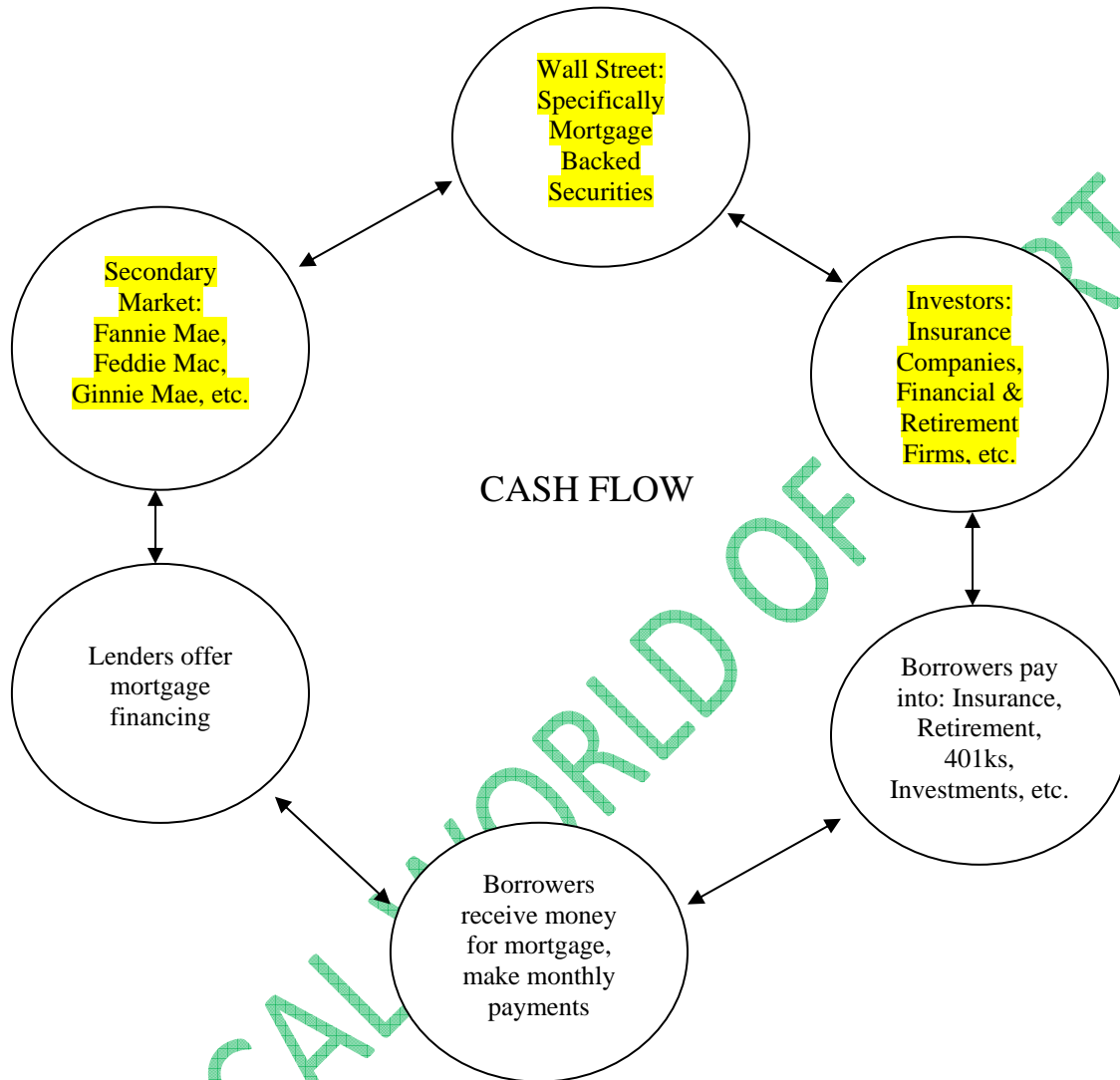
INSTRUCTOR: Mark S. Randolph, CMP

302-766-7386

Where does the money for mortgage financing come from?



Where do Mortgage Rates come from?



- Mortgage Backed Securities
 - Traded on Wall Street – determines cost of mortgage
 - Percentage and costs changes by the minute
- Investors
 - Dictates demand and parameters
 - Can require more fees
 - For Example
 - Long term locks are charged fee on Wall Street
 - Fees translated to points charged to borrower

- Fannie Mae/Freddie Mac, etc.
 - Will charge based on risk
 - For Example
 - Charges more points for lower credit score
 - Charges more for no escrow
- Lenders
 - We formulate offer rates and points from information above
 - Can dictate own policies

Mortgage Meltdown

- What happened?
- Who's to blame?
 - SEC
 - Investors
 - Fannie Mae/Freddie Mac
 - Lenders
 - Loan Officers
 - Brokers
 - Borrowers
 - Sellers (Real Estate Community)
- Impact
 - Recession
 - Mortgage Melt down
 - Housing Melt down
 - Credit Crisis
 - Tightening of Policy

The myth of Shopping for a Mortgage

- “Shopping” for a Mortgage
- The NEW GFE
- APR
 - Annual Percentage Rate
 - How can it affect a Real Estate Transaction (Federal Law)
 - 7 business days review by borrower from application
 - Possible delay in closing up to 3 business days
 - .125 variation will dictate 3 days

THE MAGICAL WORLD OF MORTGAGES - Notes

- If not disclosed in timely fashion 3 days could push closing
- The practicality of the APR
 - Eek out fees
 - Compare Lenders
 - Full disclosure
- How does it work:
 - Calculate for payment
 - Take Loan amount, subtract costs
 - Reenter new Loan amount
 - Calculate for interest Rates
- Exceptions
 - Government Loans
 - ARMS
 - Extra
 - Number of days interest
 - Attorney Fees
 - Other Settlement Fees

Pre-Qualification vs. Pre-Approval Qualifying a buyer

- The five major components Mortgage Companies review
 1. Credit
 2. Income
 3. Assets
 4. Employment
 5. Debt to Income

Credit

- Credit Scores
 - New changes
 - 620 minimum for Fannie Mae/Freddie Mac
 - 580 minimum for FHA
 - PMI Companies
 - 660 & 680 (depending on PMI Company and LTV)
- Credit History
 - DU – No longer rules
 - Underwriting can overrule
 - Authorized User –

- Can be helpful to increase score
- Can be detrimental if borrower does not have own tradelines
- NO CREDIT – BIG PROBLEM

Income (Open Discussion)

- Salary
- Hourly
- Overtime
- Bonus
- Commission
- Self-employed

Assets (Open Discussion)

- Cash
- Savings
- Gifts
- Inheritance
- Tax returns
- Lottery
- Selling large items
- Government Programs
- Settlement help
- \$8000 tax credit/\$6500 tax credit

Employment (Open Discussion)

- Length of Time
- History
- Education

Debt to Income Ratios

- Big Changes
 - Fannie Mae/Freddie Mac
 - 45% Max
 - 50% Max – must have Compensating Factors
 - Emphasize the “s”
 - Discussion regarding Compensating Factors

THE MAGICAL WORLD OF MORTGAGES - Notes

- PMI
 - 41% Majority
 - 45% - with restrictions
- FHA – No real change BUT
 - FHA memo urging common sense lending
 - Result – more conservative financing
- VA & USDA
- Non-Conforming (Jumbo Loans)
 - Stringent

Payments, the complete breakdown

- PITI
 - Principle and Interest Payment
 - By Hand
 - 6-6-8
 - 9-7-7
 - By Factors
 - By Mortgage Calculator
 - Homeowner's Insurance
 - Homeowner's/Hazard/Fire
 - Flood
 - Taxes
- Don't forget HOA & Condo Fees

LTV – Changes

- Fannie Mae/Freddie Mac
 - 5% Down
- FHA
 - 3.5% Down
- VA
 - 0 % Down
- USDA
 - 0 % Down
- The dreaded PMI

- Definition of Declining Market
- Delaware was Declining Market
 - Changing over
 - Not all lenders and PMI Companies have changed yet
 - May require borrower to put more down, etc.

Underwriting Changes:

- Override DU/DO/LP
 - What are they?
 - DU/DO/LP
 - DU Dummies
 - The human factor
- Buy Back!!! (Repurchase) New issue in 2010
 - Saw increase in 2009
 - Mortgage Company may take loss
 - Loan Officer may take loss
 - Underwriter may lose license and/or job
- Four letter word: PMI Underwriters!
 - Loan with PMI are reviewed by PMI Company
 - PMI Underwriters can, and do, override Lender's Underwriting
- Fraud
 - The search for Spock...
 - What is lurking out there
 - Social Security Numbers
 - Patriot Act
 - Fraud Companies
 - APR/GFE

The Property

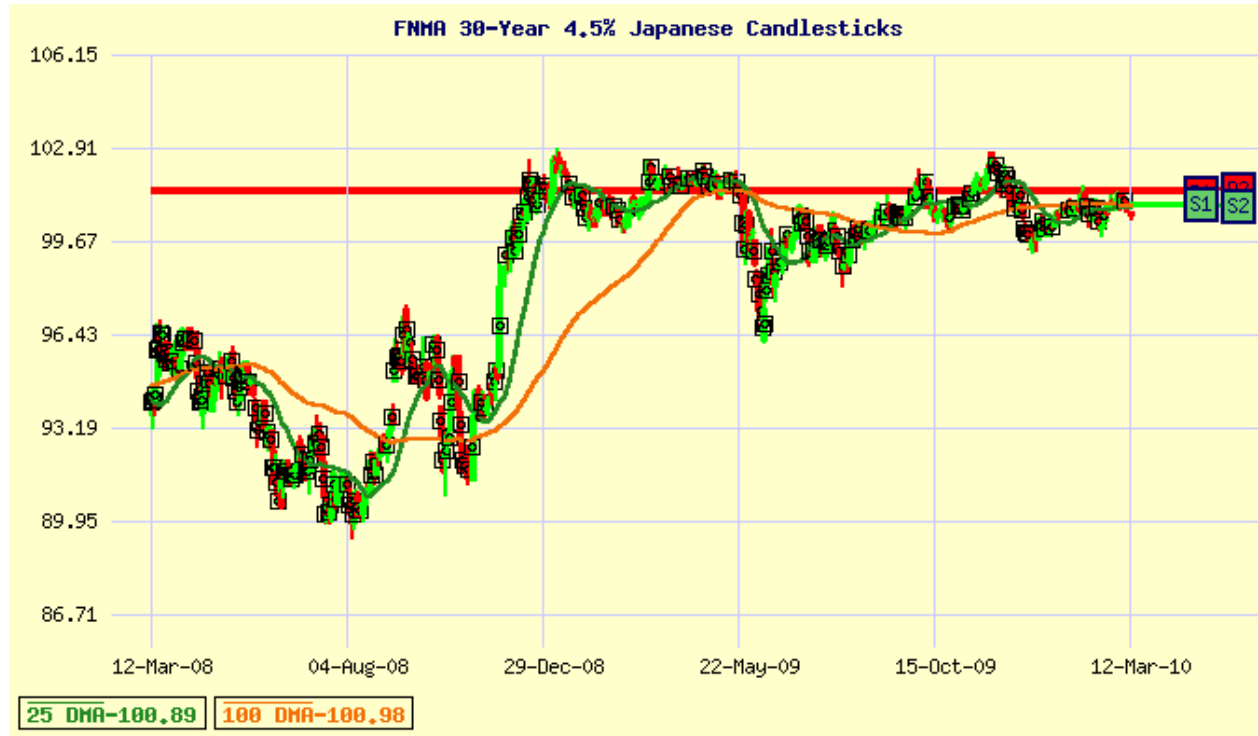
- Appraisals and the new laws
- CHANGE
 - Length of time – 120 days
- What the Lender worries about

- Condos
 - Conventional
 - FHA/VA

THE CRYSTAL BALL:

- Census
 - USDA
 - Middletown
 - Smyrna
 - Townsend
 - Above the Canal
 - Dover?
- Rates
 - Fed's Monetary Policy
 - March 31st – ending
 - Extension??
 - How the Rates have come down:
 - Read the following chart backwards – up is down and down is up.
 - Notice how the rates shot down around November to December 2008. President Bush announced we were in a recession and Fed policy start taking place.

THE MAGICAL WORLD OR MORTGAGES - Notes



- Also notice in June 2009 rates came up – this was a market reaction to the possibility that the recession was over.
 - What will happen in two weeks when the policy ends?
 - Notice top line (102.91- that is the all time low for rates – we never broke that line!
- Economy
- FHA Rumblings
 - Running out of money!!!!
 - 2.25% UFMIP (April 5th)
 - Higher fee – slightly higher monthly payment
 - More down payment?
 - Tighter Guidelines?
 - Less Seller's Help
 - Going from 6% down to 3%
- GFE
 - Transfer Tax
 - Costs
- The Economy
- The Borrowers

WHAT CAN YOU DO?

- How high can you fly?
- Professionalism – even more so
- Documentation – it's everyone's job!
- News – what are you reading/listening to?
- Educate borrowers
- Lead borrowers
- Are you creating your own market or is the market creating you?
- Change is inevitable: embrace it and own it. If you don't, your competitors will, and leave you in the dust.

THE MAGICAL WORLD OF MORTGAGES