



The Mortgage Business The Last 20 Years

In 1990, the top 25 mortgage companies originated nearly 30 percent of the loans, and now they secure over 80 percent of the loans. Plus during this time the industry morphed from traditional financial institutions to a web of mortgage origination entities. How did that happen?

Brian Maillian of Whitestone Capital Group shares five historic milestones within the mortgage industry:

1. In 1986, a new U.S. Tax Code allowed Real Estate Mortgage Investment Conduits to be used, making Mortgage Backed Securities products more efficient.
2. Wall Street began selling investment vehicles to European Capital Markets.
3. After the S&L scandal, banks choose to generate revenue thru loan origination and servicing rather than holding onto long-term fixed rate loans.
4. The underwriting system became standardized and efficient. With competition based on margins and volumes, the market developed into large non-bank originators, who surrounded themselves with thousands of mortgage brokers.
5. Fannie Mae and Freddie Mac increasingly sign exclusive vendor based sourcing contracts to increase their market share.

Now brokers control the loan programs and products. The top 10 subprime companies originate nearly 60 percent of those loans, and the top originators are not affiliates of traditional financial intermediaries.



Defining Creative Financing

Any lending that differs from standard lending practices is considered creative.

In 1990, a standard loan was 15 or 30 years; the rate was fixed or adjustable; and it could be assumable.

By 2005, with the expansion of the securities market, financing became creative, and a standard subprime loan could include:

- 80/20 or 90/10 or 70/15/15
- Loans could be fixed rate, Neg Am, adjustable, interest only.
- Fixed rates could last 5, 7, 10, 15, 30 or 40 years.
- 100% financing was common.
- Buyers didn't need to disclose their financial documents, or they could state their income, or they could disclose all their financial records.

5 Tips To Creative Financing

Julian Ford of Interprise Financial suggests these tips:

1. Got cash? Put 100% down & then refinance 70%.
2. How to avoid PMI and get 100% loan-to-value? Secure a 70% loan from your lender, and then get the seller to secure a second 30% note.
3. Negotiate with seller to pay the closing cost; up to 6% of the asking price is allowed.
4. Don't have seasoned funds to purchase your next property? Get a second mortgage from primary residence; it is considered to be seasoned funds.
5. If you find a great deal, well below market value and you don't have money, consider a Private "Hard Money" Loan. Don't let the fees scare you; usually they start at 12% + 4 points; generally it's interest only with terms of six months to one year. Do the math — you may still make a lot of money.

Money often costs too much.

~ Ralph Waldo Emerson

4 Tips To Finding A Good Mortgage Broker

1. Ask your real estate agent, CPA, financial planner or lawyer if they know a good Broker.
2. Interview Brokers who are members of the Ntl Assoc. of Mortgage Brokers (www.namb.org).
3. Interview Brokers who are members of your State's Association of Mortgage Brokers.
4. Compare rates, points, and fees.

Analyze This!

Now before approving loans lenders analyze:

1. **Title** – Depending on the lender they want a property to be owned between 2-months and 1-year before selling it or refinancing it.
2. **Seasoned Funds** – Lenders like to see 6-months of reserves when refinancing.
3. **Personal Finances** – Lenders want to know how much of your personal finances were invested into the property.
4. **REO Properties** – More scrutiny is placed on investment properties that are attached to a boarded up property or are vacant.



4 “Red Flags” To The Lender

1. If you own a property for less than 30 days and want to cash out to pay off debts.
2. Borrowers who want to refinance within 6 months of purchasing a property.
3. Borrowers who want to buy an investment property yet they have minimal experience in renting property and collecting monthly payments
4. Borrowers who don't have six months of reserved and/or seasoned funds

Fannie, Freddie and other GSEs

GSE stands for Government Sponsored Enterprise. They are independent lenders, created by Congress to assist groups of borrowers in gaining access to capital markets.

Borrowers can be farmers, ranchers, homeowners, and mortgage lenders.

GSEs are sponsored in part by the federal government, and the three most recognized lenders are:

- The Federal Home Loan Bank System (Freddie Mac)
- The Federal National Mortgage Assoc. (Fannie Mae)
- The Government National Mortgage Assoc. (Ginnie Mae)

Fannie Mae and Freddie Mac purchase the majority of conforming loans, and most conforming lenders underwrite strictly to their guidelines.

“Financial Buzz” Freddie Mac’s New Guidelines



On August 1, 2008 the new guidelines will take affect, impinging many residential real estate investors. Here's a quick overview:

1. Are you an investor with more than 4 financed properties? If so you might be prevented from obtaining a mortgage with lenders who sell their loans to Freddie Mac.
2. Investors will also be affected if purchasing properties with hard money loans, lines of credit or cash with the intent of refinancing to pull cash out. Under the new guideline an investor would have to wait 6 months in order to process a cash-out refinance.

To learn more go to: www.FreddieMac.com.

Military Service Members

Are you on or recently released from active duty? If so, there are special financial relief options in place for service members through the Service Members Civil Relief Act (SCRA). Talk to your lender about them.