WELCOME

Refinance Seminar

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Making sense of today's complex mortgage market, promoting successful home ownership

By Kevin Panet, CMPS

Courtesy of
Sabre Mortgage

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Seminar Agenda

- Introductions
- The Hype, The Meltdown, The Facts
- Goals
- Programs & Terms
- Documentation
- How Credit Affects Mortgages
- Understanding LTV
- 2nd Homes
- Mortgage Planning
- Next steps

Introductions

- Steve Minor – Owner
- Kevin Panet – Loan Officer
- Mike Peterson – Loan Officer
- Laurie Minor – Loan Officer
- Courtnie Minor – Processor

Overview of Lenders

- 3 Ways to Lend
  - Banks & Credit Unions
  - Finance Companies
  - Mortgage Brokers

Overview of Lenders

- Banks and Credit Unions
  - Restricted by own guidelines
  - May not accept less-than-perfect credit and/or income documentation
  - Tend to have higher overhead
  - Do not tend to consider “exceptions”

Overview of Lenders

- Finance Companies
  - Known for notoriously high interest rates
  - Loans are limited to in-house programs
  - Often borrowers are “up-sold” with other services

Overview of Lenders

- Mortgage Brokers
  - Act independently of large companies
  - Work in the interest of the borrower
  - Free to select the very best programs, rates and terms – forcing banks to compete
  - May be individually licensed, adhering to a strict code of ethics

The Hype

- If it sounds too good to be true…
- "The Big Lie"
- The truth is out there
- *You can have any rate you want, but there's more to mortgages than rates*
  - A 2% rate does not necessarily mean 2%

The Melt Down

- Income was overstated
- Homes purchased with 100% finance, plus additional HELOCs
- Borrowers pressured into the wrong loans
- Borrowers pressured into bad loans
- Natural causes
  - Death, divorce, illness, job loss

The Facts

- Informed borrowers make better decisions
- Lenders are in business to make money
- Nothing is “FREE” or “No Cost”
- Savvy home owners can get more
- Clear goals = better decisions

Your Goals

- Goals need to be clear
  - Reduce monthly mortgage payments
  - Reduce total monthly debt payments
  - Access equity for a significant life event
  - Pay off mortgage faster
  - Invest in other opportunities
  - Improve your credit score
- Understand goals are influenced by risk

Your Goals

- Need to understand risk tolerance

Traditional 30-Year Fixed	40-Year Loan	5-year ARM	Interest Only	Option ARM

Lower Risk *Higher Payments*	CONSUMERS	Higher Risk *Lower Payments*
←		→
More Rate Risk *Higher Premiums*	INVESTORS	Less Rate Risk *Lower Premiums*

Question

- If you were to refinance your mortgage today, what would your goals/objectives be?
  - Consolidate monthly debts into a lower payment
  - Obtain a long term-fixed rate loan, minimize risk and increase peace of mind
  - Obtain cash-out for vacation, furniture or luxury items
  - Obtain cash-out for investment purposes
  - Lower rate and obtain shorter-term loan
  - ______________________________
  - ______________________________
  - ______________________________
- What is your risk tolerance? ( ) Low ( ) Medium ( ) High

Programs

- Mortgage programs are like Suits
  - One size does not fit all
- All have pros and cons
- All can be effective if used correctly

30-Year Loan

- Basics
  - 30 years of equal payments every month.
- Pros
  - Mortgage payments do not change over time
  - Loan paid off in 30 years (or less)
  - Rate risk is non-existent
- Cons
  - Rates tend to be higher
  - Prepayment penalties might exist (sub prime only)
  - Might not make sense if in home for 5 years or less

30-Year Loan Rates Since 1975

Source: Mortgage Market Guide

40 or 50-Year Loan

- Basics
  - Payments are lowered with longer amortization, with balance due in 30 years.
- Pros
  - Lower monthly payments, average of 8%
  - Borrower builds equity
- Cons
  - Builds equity slower
  - Rates tend to be higher
  - Prepayment penalties might exist, up to 3 years
  - Loan not paid off after 30 years (balloon payment due)

Interest Only Loan

- Basics
  - Monthly payments cover interest only, nothing is applied to principle
- Pros
  - Lowers monthly payments, average of 16%
  - Home ownership is more affordable
  - Flexibility to determine how much you reduce your loan on a monthly basis
  - Federal government does not give incentive to pay off principle because only interest is tax deductible
- Cons
  - No money is applied towards principle
  - Home appreciation required to increase value
  - Equity could be eroded

Adjustable Rate Mortgage (ARM)

- Basics
  - Rate is tied to a specific index, plus margin. Rates can adjust every 6 to 12 months – may go up or down, depending upon the index rate
- Pros
  - Lower initial monthly payments
  - Borrower builds equity
  - There are cap rates to keep rates manageable
- Cons
  - Can adjust every 6 to 12 months, after introductory period
  - Prepayment penalties can exist
  - First adjustment can jump up to 3%

Adjustable Rate Mortgage (ARM)

- **Margins**
  On an adjustable rate loan, the amount a lender adds to the index in order to determine the mortgage interest rate at each adjustment period.
  - For example, if the index is at 5.0, and the margin is 1.5, the fully indexed interest rate is 6.5%.
  - The margin is normally fixed for the life of the loan.
- Rates & Margins
  - Example: LIBOR*: 3.0% (index rate)

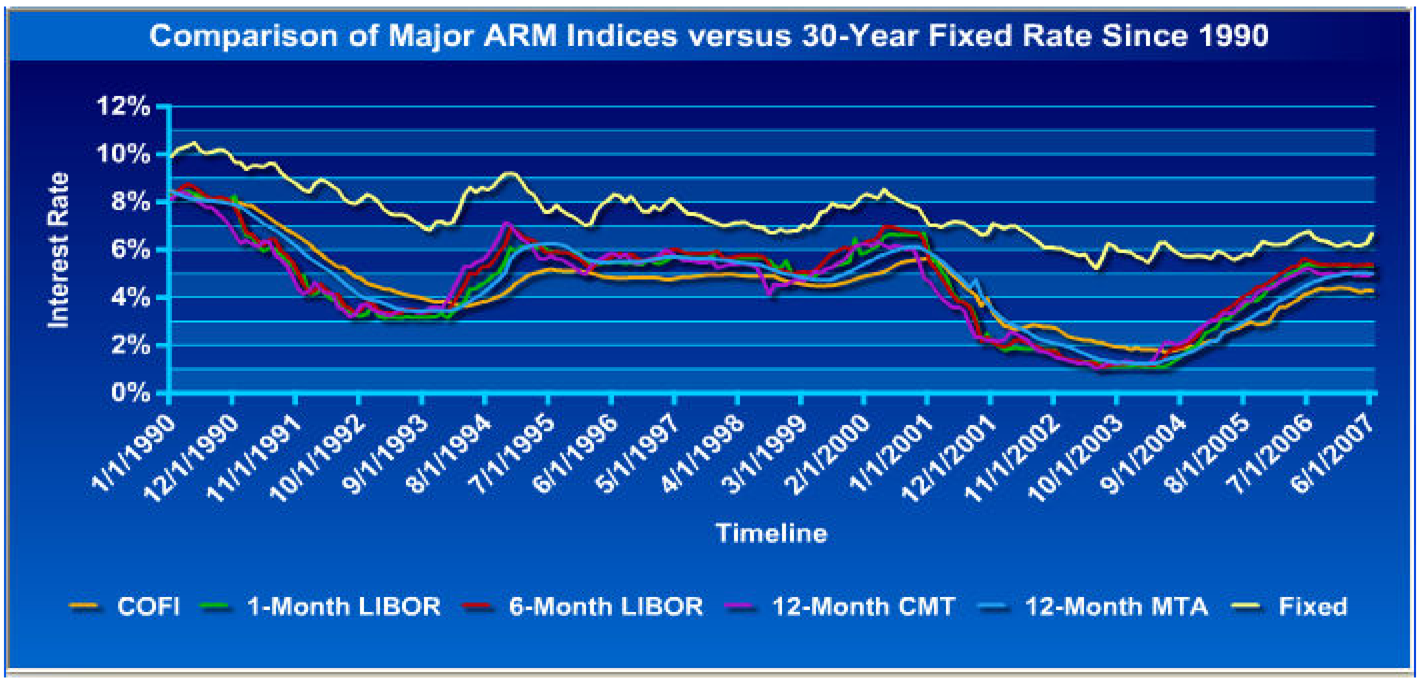
    <u>Margin: 4.4%</u>

    Note Rate: 7.4%

*LIBOR (London Inter Bank Offered Rate) is one of the most widely used indexes

Adjustable Rate Mortgage (ARM)

- Basics
  - Rate is tied to a specific index, plus a margin.
  - Margins include LIBOR, MTA, COFI, etc.



Source: Mortgage Market Guide

Hybrid ARM: 2/28 – 10/20

- Basics
  - Initial fixed period (2-10 years), then ARM.
- Pros
  - Lower initial monthly payments for fixed period
  - Borrower builds equity
  - Piece of mind during fixed period
- Cons
  - Can adjust every 6 to 12 months when ARM begins
  - Prepayment penalties might exist
  - Initial rate increase can be up to 3%

Hybrid ARM Notes

- Hybrid ARMs with fixed rate periods can
  - Help borrowers for short-term loans (>10 years)
  - Help credit challenged borrowers to get through the rough spots so they can qualify for the lowest interest rates in the near future
- As rates rise, most borrowers seek 30-year fixed loans
  - For the second quarter, 2007, about 86% of borrowers with a hybrid ARM refinanced into a fixed-rate loan (according to Freddie Mac's Refinance Product Transition Report)

Option ARM

- Basics
  - 4 payment options to choose from
    - Introductory rate, Interest Only, 30-year, 15-year
- Pros
  - Great flexibility for self employed
  - Can free up capital for savvy investors
  - Has a lifetime interest rate cap
- Cons
  - Borrowers adjust life style to monthly minimum
  - If only minimum rate is paid, debt is increased, causing negative amortization
  - Recast point can produce grave payment shock
  - Can “call the loan” when maximum note amount is reached
  - Rates can adjust monthly without monthly caps

Option ARM

- Facts
  - Program was developed for self-employed
  - Average rate is now 8.5%
  - The difference between the minimum payment and the interest payment is added to principle
  - Negative Amortization quickly eats equity
  - Family net worth can be negatively affected when values decline
  - Borrowers should have a plan in place to transition from these loans

Documentation

More documentation = Lower Rates

- Full Doc: 24 months
- Limited Doc: 12 months
- Stated
  - Stated Income / Verified Assets
  - Stated Income / Stated Assets
  - Must make sense
- No Doc
  - No information provided regarding employment or savings

How Credit Affects Rates

620 - 850 score: Prime Borrower / “A-paper”, With no consumer or mortgage lates

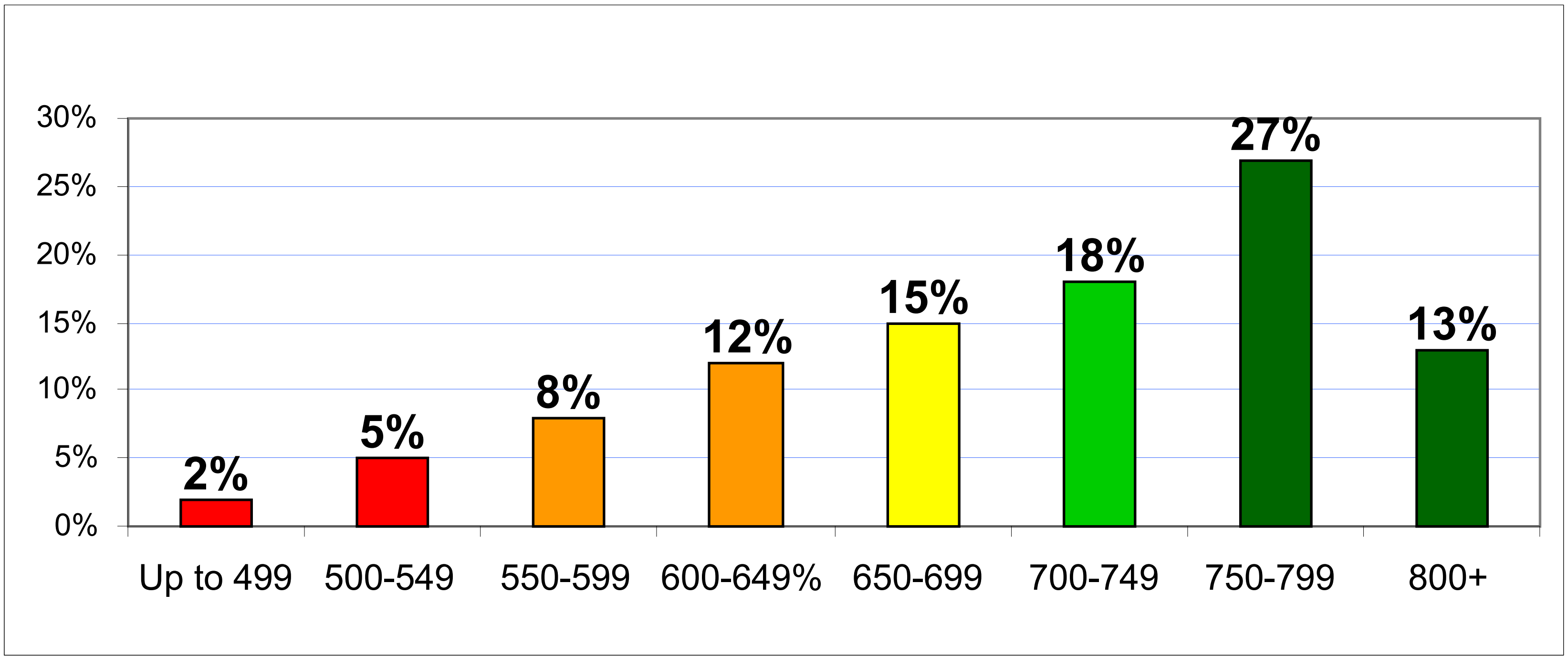
620 – 659 score: Alt-A, maybe A or B or C, with late payments

500 – 619 score: Sub Prime, Hard Money

350 – 499 score: Hard Money

General guidelines for fully documented income loans – these are not hard guidelines.

FICO Score Comparisons



Source: www.MyFICO.com

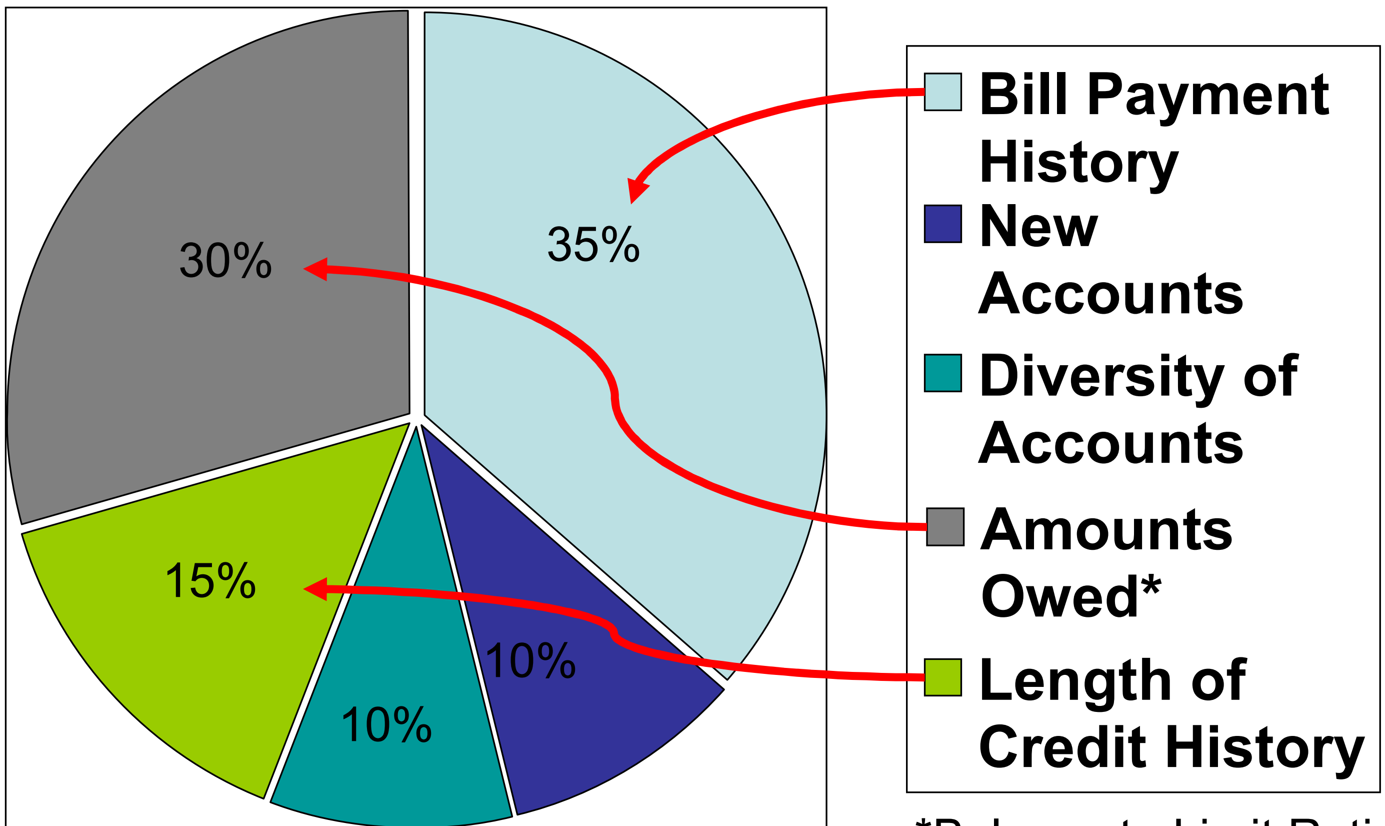
LTV Affects Interest Rates

- Lower LTV = Lower Rates
- LTV is amount owed divided by the value of the house.
- Example: $1,000,000 home
700,000 loan
70% LTV
- Higher LTV = Higher Risk

Credit Myths

- You should cut up cards that you are not using
- "Annual Fee" cards improve credit scores
- Lock up all your credit cards and never use them unless you really have to
- Carrying higher balances demonstrates you are a better risk
- Transferring balances can help you
- No payment for 12 months is a good thing

5 Parts of a Credit Score



Source: Fair Isaac – proprietary formula

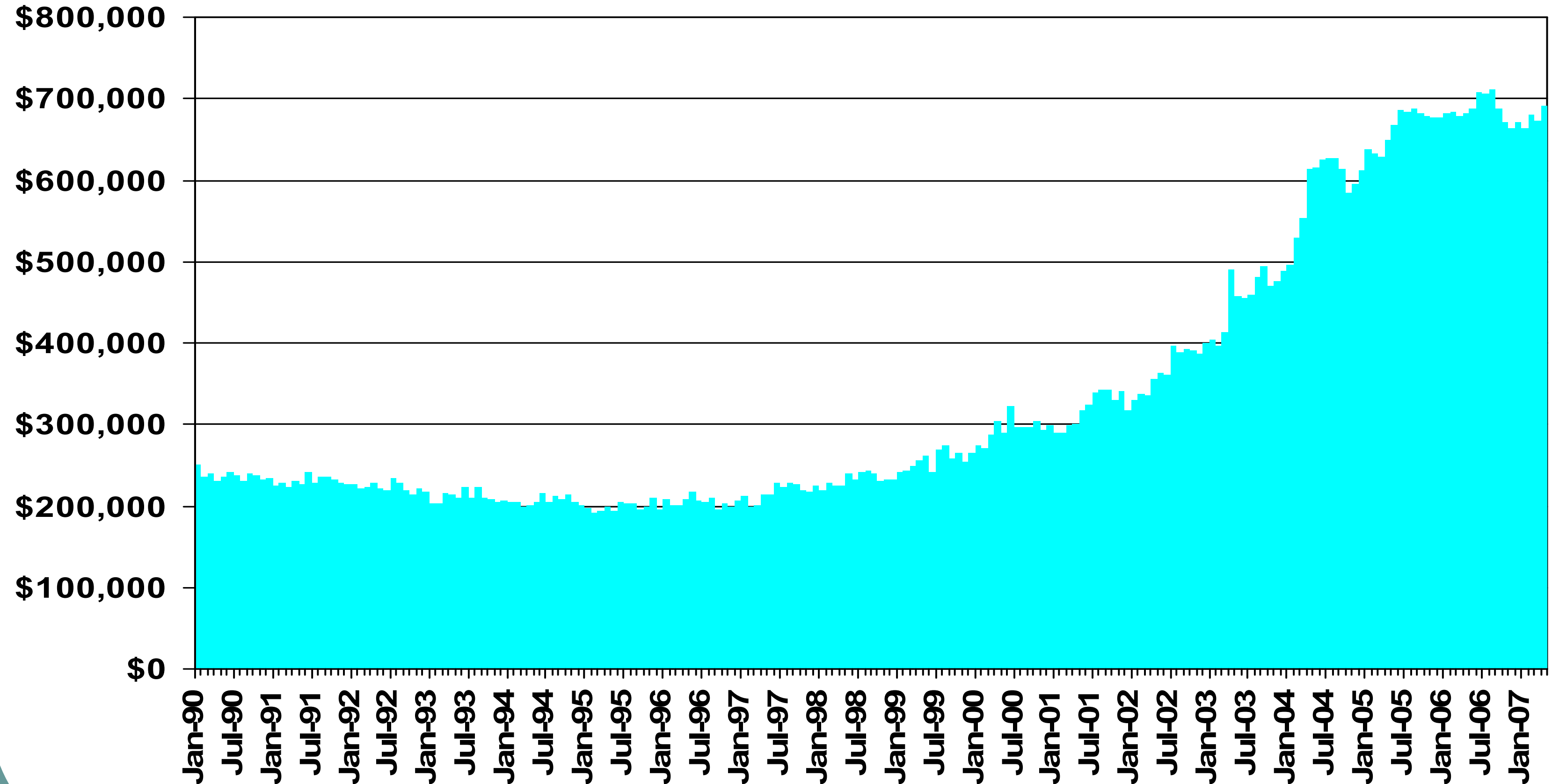
*Balance to Limit Ratios

2^{nd} Homes

- Outstanding opportunity to build wealth
- Owner Occupied vs. Investment
- 2^{nd} home must make sense
  - Must be owner occupied, not rented
  - Must not be in close proximity
- Investment property = higher rates
- Positive cash flow

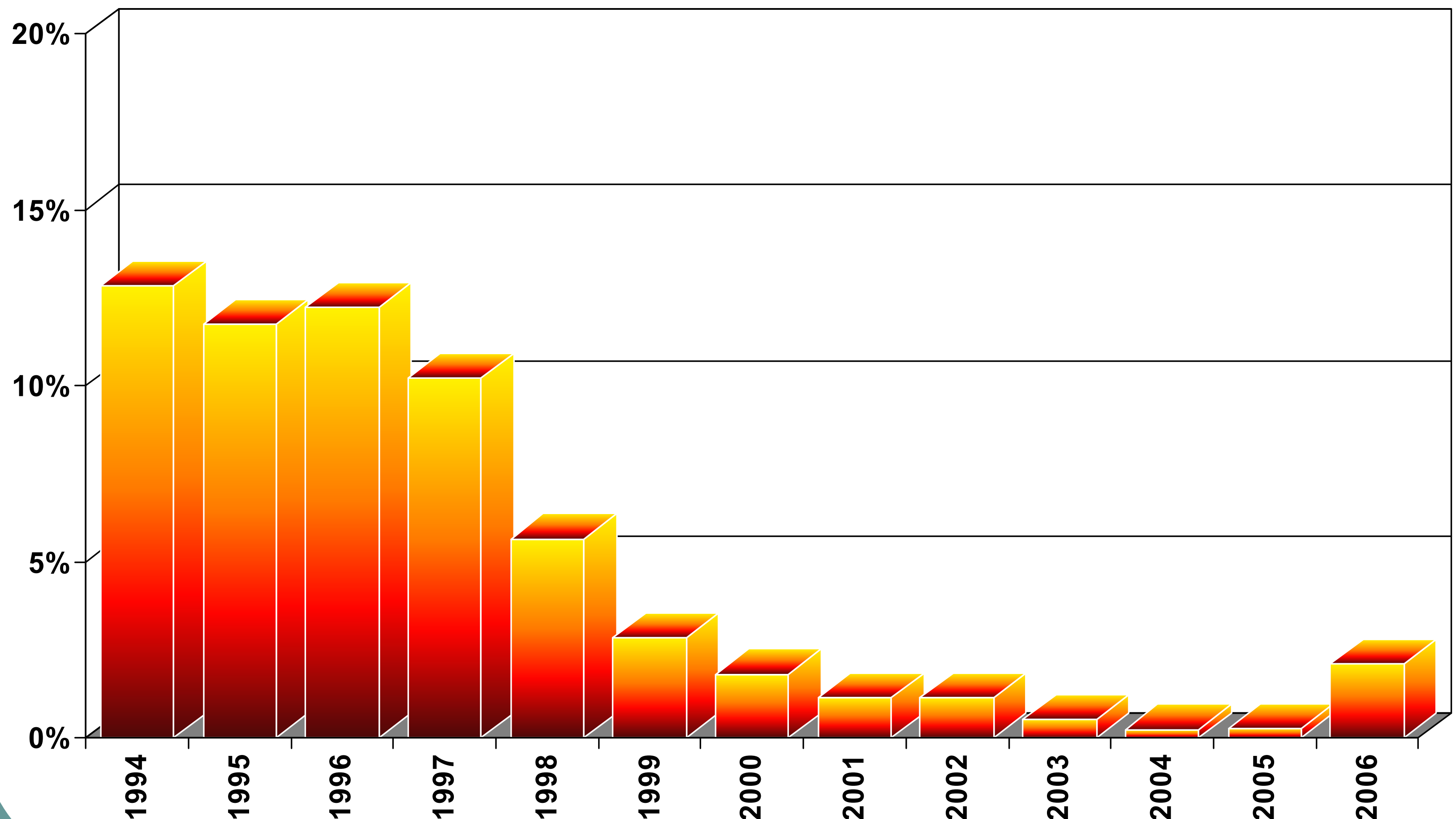
Median Price of Existing Detached Homes

Ventura County, April 2007: $691,710, Up 1.5% Y-T-Y



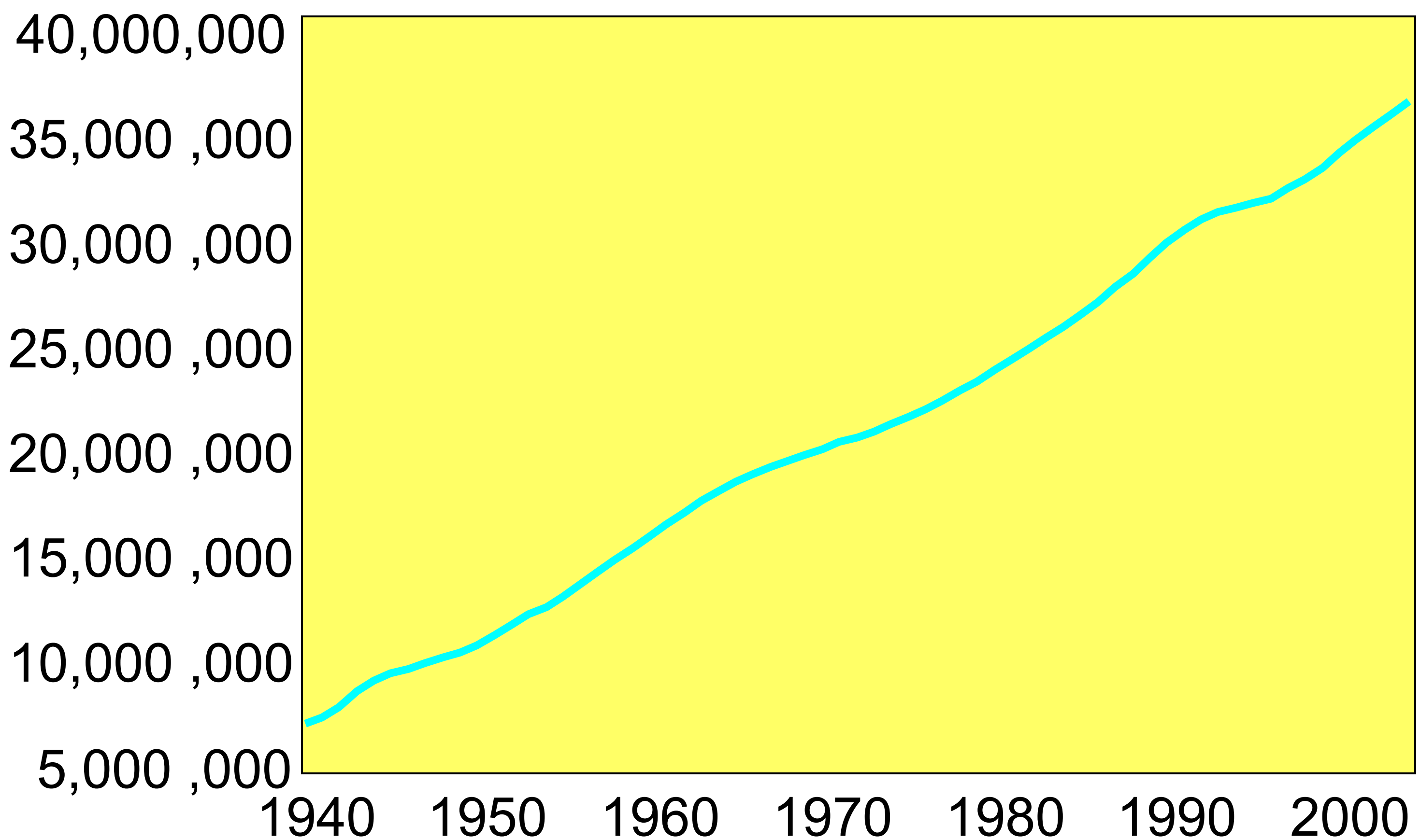
SOURCE: California Association of REALTORS®

Proportion of Foreclosures in Housing Transfers in Ventura County



SOURCE: Real Estate Research Council

California Population Growth



Bottom Line

- California real estate will continue to appreciate in value
- Real estate is an important part of your overall financial retirement strategy
- If you can afford investment property, now is a great time to buy

Your Goals

- Goals need to be clear
  - Reduce monthly mortgage payments
  - Reduce total monthly debt payments
  - Access equity for a significant life event
  - Pay off mortgage faster
  - Invest in other opportunities
  - Improve your credit score
- Appreciate how goals are influenced by risk

Your Goals & Strategies

- Goal: ______________________________
- Purpose: ____________________________

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- Result: _____________________________

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Mortgage Planning

- Step 1: Review your current mortgage program, rate and term.

  Program: ____________ Rate: _____ Term: ____

- Step 2: How long you plan to stay in the home. ________ Years

- Step 3: What is the purpose of your refinance?

  ____

  ____

- Step 4: Evaluate if you are currently in the right loan.

  ( ) Yes ( ) No ( ) Not Sure

- Step 5: If your are unsure about your mortgage, get a full mortgage review.

Avoiding Scams

- Make sure the person you are speaking with is licensed to offer mortgages.
- Be wary of offering personal information over the phone.
- Don’t fall for the “teaser” rate.
- DO NOT feel pressured into signing any loan documents.
- If it seems to good to be true, it probably is.

Selecting a Mortgage Broker

- The broker / loan officer should be licensed by the DRE
- Should be able to demonstrate on-going professional education
  - CAMB, NAMB, NAR, CMPS, etc.
- Needs to have access to multiple lenders
- Must be a good communicator

Questions?