

“Do something today that improves your tomorrow”

White Paper – Home Value Restoration Act
By Michael F. White CMPS™

We don't need politics. We certainly don't need a bail out of any kind. We need solutions. Here is a plan that can help get us back to where we need to be by providing investment and a plan.

There are three major challenges that are the root cause of where we are. The fall of home prices and a series of bad loans on residential properties clog the banks and their balance sheets, and the lack of confidence that bank deposits are secure.

First thing that needs to be done is to remove limits from FDIC insurance on all insured accounts. We either have confidence in our banking system or we don't. Remove the limits and restore confidence by depositors.

Next we need a plan to deal with foreclosures, defaults, and home prices. The two items that can be addressed directly are the following:

The fall of home prices can only be resolved by the reduction of inventory.

The bad loans need to be priced so they can be sold in the open market.

How do we get these two challenges resolved? My hope is that these next seven simple steps I will discuss will go a long way to this resolution. The main point is, we won't and can't bail out Wall Street or those that have used poor judgment in the type of home or the kind of loan product they used to finance it. We can have a huge debate and write all the books later. We need to agree on steps toward a solution. We need to discuss ideas and potential solutions without politics, and to remove all egos from the dialog.

#2 Establish the bottom.

Nothing can rebound without finding the bottom of the housing market. We need a sharp reduction in inventory and get people in the homes that are vacant. In markets where home prices are falling, we need a freeze on all new construction for a minimum of 2 years. This will help reduce inventory and stabilize home values and rental prices.

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We also need to have the government set the price bottom on mortgage backed securities and be the investor of last resort. Ten to forty cents on the dollar based on the type and style of loan, and the amount of verified documentation provided to qualify for that loan. Once the bottom is set on the value of those securities, the private sector can make a determination on how and what they wish to price and buy securities. Without an investor of last resort, those securities remain valueless on the balance sheet.

#3 Define the inventory.

In both housing and loan portfolios, we need to know what is out there. Homes listed for sale, homes vacant either pending or foreclosed, property started and not yet complete. On the loan side, types and style of loans, loans in various stages of default, and the ability or the desire of the current borrower to repay any or all of the obligation. Until you know the real size of the challenge, you will never find a real solution.

#4 Primary Residential Default Workout.

We need to look at each primary residential loan default and determine quickly if the borrower has the ability to repay the obligation. Quite simply, we need a workout that will put that borrower into a fixed rate product so that the total housing payment and other debt obligations does not exceed 41% of verified gross monthly income.

If the home owner is willing to stay in the home, a new loan will be provided so that the new monthly payment will not exceed 41% of their gross income when combined with other debt obligations. That loan will remain the asset of the government and will become a non-default obligation. Just like a federal tax lien, you may never go bankrupt on this obligation.

In exchange for this workout, the government will also take a second lien position on the property to cover the difference between the given new loan amount and the original appraised value of the property when it was first purchased. If at any point the home owner wishes to sell the property, the loan will be satisfied at whatever price the market will bear. If the original sales price is exceeded, all of the money over that price will belong to the home owner. If the sales price is less than the original sales price, but more than the new loan granted, the entire amount will belong to the government. In the event the property can not be sold for more money than was lent by

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the government on the property, the home owner will have a future tax obligation for the difference.

#5 Investment Properties.

You can look at each investment property to note if the property is rented, and does the current tenant qualify to purchase the property under the same terms as above. In the event the renter can't or won't purchase the property, we employ a local property manager to manage the property, or a State, County, or City organization may purchase said property under the same terms as above.

#6 Vacant Properties.

All vacant properties need to be assessed by local Realtors® and local Direct Lenders to fit into three categories: “A” – “B” – “C”. An “A” property requires minimal work to put on the market and sold under the same terms as in step #3 or outright to a qualified borrower.

“B” & “C” properties require more significant work or renovation to place them for sale. A “B” property requires \$25,000 worth of work or less, and a qualified borrower can buy the home as is, or apply for a loan that includes the money for repairs under the same terms as stated in #3. OR acquired by a State, County, City, or local charitable to renovate and sell under the same terms in #3 and receive compensation for repairs and 10% of the final price as a bonus for renovating the property.

A “C” property requires more than \$25,000 worth of work to meet all codes and become livable. A “C” property can be purchased under the same terms as stated in step #3, or acquired by a State, County, City, or charitable organization to renovate and sell outright or under the same terms as in section #3 and receive compensation for all repairs and 20% of the final price for renovating and selling the property.

Vacant properties cost everyone in the community money. Either sold or renovated and sold, rented or primary residences need to be occupied.

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#7 The Process

Local Realtors®, Direct Lenders, State and local government agencies, as well as charitable groups need to be enlisted to help establish price points, qualify borrowers, and renovate vacant properties. Local Direct Lenders need to be involved in assisting those people in difficulty with their current obligations.

Using the standards in step 3, those currently in default or facing foreclosure can be assisted in staying in their homes under a new financing package. The program will be highly effective in eliminating the legal process and provide defaulted lenders a large portion of their original investment. Second and third lien holders may also receive a portion of their original investment if they provide requested information that shows the approval process for those loans as well as their determination on how the borrower would have been able to repay the obligation. Failure to provide adequate documentation will result in elimination of that specific lien and all rights to future collection of the obligation.

Each original loan must be reviewed to determine the following items:

- A) The amount of documentation provided to secure the loan.
- B) The type and style of loan product provided.
- C) The accuracy of the information provided.
- D) Credit history of the borrower.

There needs to be a sliding scale of benefit based on the original risk the lender accepted when the loan was given. The maximum loan purchase will be 90% of the original loan, down to 20% for those who financed 100% of the sales price to non-documented and poor credit borrowers.

Each property that is in default, or approaching default, will have the home appraised by two FHA approved appraisers to make a determination of current market value. Once that value has been established, Realtors® and approved Direct Lenders could put forward qualified bids for the property. If no bids are found that meet or exceed the current appraised value, a qualified borrower can be awarded the home based on the same qualifying terms as in section 3. The highest qualified bid will be awarded the home.

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If the current first lien holder refuses to accept the offer, the agency may pay up to a maximum of 90% of current appraised value to the lien holder and place a borrower in the home with a first lien to be repaid following the 41% rule, and place a second lien up to the current appraised value.

Each time a property is placed in that position where a borrower is placed in a home below market value, the entire future equity belongs to the lending agency up to the appraised value. For the first five years if the property is sold for more than the appraised value, the borrower and the agency will share the equity improvement equally. The borrower can refinance the property at any time through any outside lender as long as all prior terms are met and obligations satisfied.

Qualified borrowers must attend credit and budgeting classes held by the local Direct Lenders. Borrowers must also qualify all obligations and provide complete financial records. Borrowers may have to pay down or payoff significant obligations to qualify for financing. Under no circumstances will anyone qualify with more than 15% of their monthly income dedicated to non-housing obligations such as revolving credit, auto loans, and other installment debt.

#8 Education of the New Reality

Blame is political. It serves no purpose in finding a solution. We all got here together. It was never a good idea to finance 100% of the sales price of a home to a poor credit borrower with a poor work history. We need to look to systems that have worked in the past and will help guide us to the new reality.

If you want 100% financing, join the Army. VA will finance 100% of purchase property for a qualified Veteran.

Financing 100% can happen through FHA and a gift from a family member or a loan held in a second lien position.

FHA will require a down payment of 3% until January when it goes to 3.5% of the purchase price.

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If you need or desire a conventional loan, understand the New Reality. 5% down for those with credit scores 720 or better with full documentation not to exceed a 50% total Debt to Income Ratio (DTI).

If you don't have a 720 credit score, be prepared to either improve your score or put 10% down on the purchase of your home with full documentation not to exceed a total DTI of 45%.

For those who wish to finance real property for a primary residence with a credit score below 680 but above 620, you will need to put down 20% of the purchase price and have a DTI of no more than 41% on a full documentation loan.

Plain and simple we must educate people that home ownership is not a right, but rather a privilege that has to be earned by good credit scores and some investment by the borrower. Making it easier to buy a home has just made some consumers lazy and irresponsible. FNMA and FHLMC need to encourage responsible lending and borrowing practices.

The private market has plenty of opportunity to create other programs. They must take that risk themselves and not place at risk the public at large. We need to strongly regulate “Non-conforming” loan products to establish what is the standard for limited or alternate documentation is, along with significant loan to value, credit, and price restrictions. Face the facts, you want to borrow money, document your income. If you don't wish to document your income, than put more money down and have better credit.

Establishing a conduit for Jumbo loans up to a million dollars along the same type of guidelines will help those that purchase mortgage backed securities have some faith and trust in these investments.

We need a foundation. We need fundamentals. We need a dialog. We need to be adults and get this situation resolved sooner rather than later. This is not a bail out plan, it is an investment plan. This investment will generate significant profits for the government in addition to helping establish new fundamentals.

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