White Paper – "Bail-out or Timeout?"
By Michael F. White CMPS™

As a business coach to some of the finest mortgage and real estate professionals in this country, I have found the need to share these thoughts and perspectives with my clients to help provide a space in which to share information and options for all of those dealing in today's fragile markets.

We have all heard stories in the media and from financial experts about the take over of FNMA and FHLMC. The vast amount of opinion as to the inherent costs to the government, and hence "we the people", is enough to drive any sane individual into a panic.

Just last week I was in Denver Colorado doing a training class, when on the nightly news of a major television station, the news anchor made the comment: "With 90% of all the homes in America in foreclosure, the government bailout could cost Trillions!"

Now you know and I know that this is far from correct. 90% of the homes in America are NOT in foreclosure. Depending on best estimates, about 9% of loans in America are in some degree of default. This is a big difference.

We all know that sensationalism and negative news is far more attractive to the media than positive information. While the situation in our industry over the past two years is far from perfect, we all need to step back and understand the situation and how we work through it.

Many financial experts provide an argument that this intervention was not needed, at least at this time. Some will make the case that letting these two giants fail, would be the best thing to resolve the issue. Regardless of that opinion, the government has stepped in and is taking control.

So what is really the size of this problem? Some are making the case that this will be the largest bailout in history. The figures of hundreds of billions or even trillions of dollars will be needed to resolve the issues. In order to place a fresh perspective on it, what if we take a different view and walk through a solution that many have not discussed?

Michael F. White CMPS™ 2008 all rights reserved. For more information on coaching or the coach, go to www.2mortgageadvantage.com or email Mike at michaelwhite1956@yahoo.com

Take a look at this math. It is certainly hypothetical, but provides a path of thought more of us should entertain, if just to try and balance the discussion. If FNMA and FHLMC have a portfolio of five trillion dollars, we must accept that about nine percent or 450 billion of those loans have challenges. Now 450 billion dollars is a really significant number; but we need to understand that this isn't the end of the story. We need to realize that this number isn't the liability. Since FNMA and FHLMC either made loans of eighty percent loan to value, or the loans were insured, total gross liabilities could be about 360 billion dollars. Now that is a significant number, but I am still not done.

Those assets still have some value. Depending on where you are and the market, we have to deal with the loss of value from the date of appraisal. Despite a certain amount of fraud which has always been a factor, we need to look and post a number of the current value of these assets. If we use 65% as a factor, then the assets supporting the defaulted loans is in a range of 365 billion dollars after insured losses.

Again, these are just numbers, but in this scenario there is no loss at all. No bailout, no cost to the government. If we use 50% as a value factor, then the assets are worth 281 billion or a loss of 84 billion dollars. Now, 84 billion is still a significant number, but certainly not the end of the world as we know it.

So what does it all mean and how do I use this to make money? The answer needs to be in quickly identifying how to have conversations with clients and referral partners to provide clear and accurate information.

The takeover has already provided a positive response to the markets. The ability to sell mortgage backed securities with the backing of the treasury, has created demand and hence reduced the price of these securities. We may see mortgage interest rates fall enough to encourage significant refinance opportunities.

The other important point we need to take away from this is that we shall see significant changes in guidelines in the core products we share with our customers. We need to go back to basics and understand that what once was; is no longer. Educating the consumers and financial professionals we work

Michael F. White CMPS™ 2008 all rights reserved. For more information on coaching or the coach, go to www.2mortgageadvantage.com or email Mike at michaelwhite1956@yahoo.com

with becomes the focus on gaining market share and establishing yourself as a true professional.

We need to have reality and clarity. Educate, inform, and provide options. Here are the topics and conversations we need to have.

1) 100% financing. The termination of down payment assistance programs is not a bad thing. This program was bad for the seller, bad for the buyer, and bad for the lending industry. The only people that benefit from a DPA were Realtors®, the companies that provided the service, and mortgage people. It helped put people into homes they couldn't afford or didn't have the financial discipline to own a home. Let's be honest, if you can't figure out how to save 3% or 3.5% of the purchase price of the home you want to own, maybe you don't have the ability to own it?

HR 3221 opens the door with second liens and tax credits to help make this a reality. In addition to gifts from family members, you can now finance 100% using a loan from a family member provided you use a second lien. The ability to use the maximum $7,500 tax credit can also be a strategy. This credit can be used to repay the loan, or help you save the down payment. What if you increased your number of dependents to eliminate your federal tax obligations up to $7,500? With every pay check you can use that money to save for your down payment.

Yes, there is still the option of using a VA loan to purchase, as well as a Reverse mortgage for those that qualify. Qualified nonprofits work as well.

2) Real credit. Credit is king and it is our job to be certain everyone knows it. My belief and one of my main teachings is that a mortgage professional becomes the credit conscience of his or her clients. It is your obligation to explain how the scoring system works and help your clients maintain a 720+ score at all times. Expanded loan to values, and the ability to get mortgage insurance at any price, starts with a solid credit score.

3) Real assets. Down payments and reserves will rule. Now more than ever, size matters. Regardless of owner occupied, second homes, investment properties, and all types of financing of real property will hinge on the financial commitment of the borrower to the property to be financed.

4) Loan to values. Save yourself from trying to put together deals that take up too much time, or may never go together. Establish some guidelines for yourself and your clients. 100% financing is either a VA loan, Reverse mortgage, or FHA loan with a gift or grant. Less than 5% down should guide you to FHA. I know there are conventional products out there, but the reality is, will they close or can you get mortgage insurance? 5% down and a solid credit score above 680 will get you a reasonable deal in the conventional market. Either get the score up, or look at FHA to find the value for your client.

Investors need to understand the reality of investment. When you “invest”, you make a commitment of assets. Most favorable rates will be with 20, 25, and 30 percent down payments. Also note that the number of properties owned will become a bigger factor.

5) Real income. Learn to read tax returns. Understand the guidelines. See documentation and understand seasoning. As we go back to more traditional standards of qualification, you have to become an expert. Since no-doc and stated income programs are either extinct, or very expensive, your ability to understand how to document and qualify income will make you a professional that other professionals need to refer.

6) Real ratios. When did 70% debt ratios make sense? How did we come to expect that 50% housing ratio as a fact? I am not sure what happened to 28/35 or life at 41%? It is true that some people can handle these numbers. When did it become the standard? Did computer models help us or hurt us? Have originators lost the ability to understand what a real loan scenario is, or was it about how to manipulate information to get an approval?

This move by the Fed to take over FNMA and FHLMC could be seen as a bail-out or as a timeout. My hope is that we get the timeout. As an industry we need to resolve some issues. Getting a grip on the fact that home ownership is not a right, but a privilege. Just wanting to own a home is not enough. Knowing how to own a home and the commitment it takes should become a priority.

We need to license loan originators and require education and accountability. We need stronger oversight and regulation of the industry.

Michael F. White CMPS™ 2008 all rights reserved. For more information on coaching or the coach, go to www.2mortgageadvantage.com or email Mike at michaelwhite1956@yahoo.com

We need to help people prepare for home ownership and help provide them a path into a home they can afford. We need to take this timeout to look at our industry and determine how we create value for our clients, while building a sustainable and profitable mortgage practice. Many are gone. Those of us left must move the industry forward.

If we are not prepared to make these changes and do the work required to become more professional and accountable for our actions, then we are just looking at this as a bail-out where we hope the government will just pick up the bill for the failures of an entire industry to accept reality?

Those of you reading this are among those that will make the changes needed to inform, educate, and provide real value to an industry searching for leadership. Lead with the truth. Opinions will vary about the size and scope of this challenge. What the end result will be is unclear. We do know that we are not yet at the bottom, but are getting close enough to see the direction we need to go when we find it.

Do we have a bail-out or a timeout? The solution starts with making a clear choice of which direction we wish to go. Business is getting done. Homes are being bought and sold, and quality mortgage loans are being closed. There has never been a better time in the history to be a part of real estate or the financing of real property. Yes, I said the best time in history. Qualified professionals on the real estate side as well as the financing side are doing business.

Look around. There are people gaining market share and doing more business this year than ever before. Those that see opportunity will benefit in the long run.

Michael F. White CMPS™ 2008 all rights reserved. For more information on coaching or the coach, go to www.2mortgageadvantage.com or email Mike at michaelwhite1956@yahoo.com