



Surviving a Mortgage Crisis II

More Americans than previously thought are affected by the current mortgage crisis. According to a recent report from *The Wall Street Journal*, mortgage loans made from 2004 to 2006 that fell into the high-interest-rate category totaled \$1.5 trillion dollars. High-rate mortgages were 29 percent of the loans originated in 2006. Over the last three years, 10.3 million loans, or almost 24 percent of the total of 43.6 million loans originated, were in the high-interest category. Traditionally thought to be restricted to low-income buyers, high-interest or subprime mortgages were used by many middle- and upper-class borrowers to buy homes whose escalating prices put them out of reach with conventional lending standards.¹

Following the suggestions made in the last **HOT TOPICS**, Dale Vermillion, mortgage industry trainer and consultant, has recommendations for those borrowers who qualify for a new mortgage. These recommendations are based on the borrower's preparation steps of knowing one's FICO credit score, equity, debt, and income as discussed in *Surviving a Mortgage Crisis I*. This issue of **Hot Topics** will cover specific steps from Vermillion for finding a reputable mortgage lender who will work with you to find a mortgage that will achieve both short-term needs and long-term life goals.

The most important part of this process occurs before you apply for a new mortgage – **Preparation!** Vermillion cautions not to blindly turn your full financial future over to a mortgage broker. He emphasizes that you have to do your own homework and know your situation. No matter what loan you are discussing, you cannot change your FICO score overnight nor improve your property value. All lenders have to use that information as their baseline for lending to you.

Vermillion suggests several steps to determine your own eligibility and find a reputable lender for a mortgage re-finance, purchase, or equity loan:

- Know the current rates
 1. Analyze potential rates BEFORE speaking to a mortgage professional.
 - a. Go online and find rates for the type of loan you are considering.
 - b. Do not waste time trying to find the 'lowest rate'; most vary by very little.
 2. Compute your monthly payment (use Crown's free calculators) based on the online rate, loan amount, and desired term so that you know what the payment should be prior to talking to mortgage companies. This will protect you from being misled.
 3. Consider your income. By dividing your gross income by your mortgage payment, you can determine if you qualify. If your mortgage payment exceeds 35% of your gross income, you may need to reconsider, or take a second job to support the loan.
- Suggested ways to find reputable lenders
 1. Interview at least 4 companies.
 2. Compare offers between brokers and direct lenders to ensure the best deal.
 3. Be sure the broker is licensed, if required.
 4. Look for evidence of integrity-
 - a. Pray before you call and trust your feelings of well-being or uneasiness.
 - b. Ask for testimonials that you can verify yourself by phone.
 - c. Evaluate company experience/knowledge.
 - d. Request written letters of endorsement that you can check for authenticity.
 5. Is the company well-known? Investigate:
 - a. Number of years in business
 - b. Number of employees
 - c. Web site and annual reports
 - d. Google for negative postings
 - e. Better Business Bureau

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- Working with potential lenders
 1. Pray before each call.
 2. Don't be bullied; be confident! Preparation will give you the advantage. Do not trust anyone that contradicts your analysis.
 3. If you know based on your research that you qualify for a prime rate, do not allow anyone to recommend a sub-prime rate.
 4. Be prepared with your FICO, property value, and income information. This must be accurate to get a workable loan that is affordable for you.
 - a. No-Documentation Loans are rare and not recommended.
 - b. Do not exceed 80% of your market value if at all possible. Premium pricing is usually available on loans of 80% and below.
- Choosing a lender and initiating an application:
 1. Are fees charged up front or in the loan?
 2. What is the interest rate for the loan and APR?
 - a. The APR reflects the actual annual cost of the loan including all fees.
 - b. If different, there are fees that have been financed into the loan, making the APR higher. Find out exactly what those fees are for.
 - c. Most loans have fees of some type. (If not clearly listed, then they are financed in the loan or paid by the lender at closing.)
 - d. There is no such thing as a no-cost loan.
 3. Require a quote in writing to include:
 - a. Rate, APR, and all fees.
 - b. Term and any balloons and/or adjustments.
 - c. Type - fixed or ARM including adjustments, with annual and lifetime interest rate caps.
 - d. Exact monthly payment; Exact loan amount.
 - e. Ending payment date and full amount paid out based on fixed schedule, estimate if ARM (Adjustable Rate Mortgage).
 4. Compare quotes.

In Vermillion's experience, following these steps gives the mortgage seeker self-confidence and puts the seeker, not the lender, in control of the process.

Here are some additional thoughts to consider in refinancing:

- Avoid ARM's unless you are certain you will sell before the adjustment period. Fixed rate loans are usually a better option in an environment where rates are volatile and trending upwards.
- It may take 2-5 years for the mortgage market to stabilize.
- Be wary of claims for 'No Cost Loans.' There are usually fees on the loan somewhere, just hidden.

Remember, both the lender and the broker are in business to make money.

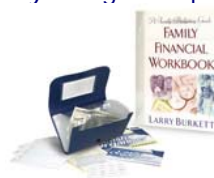
- When refinancing, it is especially important to reduce your term, if at all possible, even if it takes sacrifice. Consider a 25 or 20 year refinance instead of the traditional 30 years.
- Avoid a pre-payment penalty clause in your loan whenever possible, unless you are certain you will not payoff before the pre-pay period ends and can gain a premium priced loan as a result. There is no standard requirement for pre-payment penalties.
- What you pay is based on all of the parameters of the loan. Do not make a decision based on just a minor rate difference.
- Get out of debt as soon as possible!

Vermillion's recommended process of seeking a new mortgage armed with knowledge and preparation raises the probability that you will have a mortgage loan that meets your needs both in the short and long term.

The information from Dale Vermillion is intended to educate the public on how mortgages will affect life long term. Vermillion emphasizes the importance of the mortgage as part of a holistic life plan, one that goes well beyond one transaction.

More resources by Dale Vermillion may be found on his Web site, www.DaleVermillion.com .

So that you know where you are when applying for your family's largest expense -- a mortgage. . .



The Family Budgeting Package

The *Family Financial Workbook* shows you step-by-step how to start a budget, how to stay on track, and even addresses special budgeting problems (like a new mortgage). The *Cash Organizer™* envelope budgeting system will simplify your budgeting plan by keeping you in control of your cash spending. <http://www.crown.org/Cart/>

The information in this UPDATE was adapted from an interview with Dale Vermillion by Bette Noble, Crown Sr. R&D Specialist, Global Strategic Research and Innovation. Quotes or statistics must reference the original source.

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¹ *The United States of Subprime Loans*, by Rick Brooks and Constance Mitchell Ford, [Wall Street Journal's Real Estate Journal.com](http://WallStreetJournal.com), October 12, 2007, www.realestatejournal.com .