BILL DALLAS & TIM BRAHEEM

STRATEGIC FINANCING
A SURVIVAL GUIDE
for LOAN ORIGINATORS

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Authored by two of the nation's preeminent mortgage industry experts, ***Strategic Financing: A Survival Guide for Loan Originators*** offers essential advice and time-tested strategies on how to succeed in today's evolving mortgage market. While **Bill Dallas** details the challenges of the current economy to predict the future of the industry, **Tim Braheem** draws from markets of the past to provide innovative solutions for today. Together, they provide a new way to look at mortgage origination that no one in this business can afford to miss.

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A BRIEF BUT IMPORTANT NOTE **ABOUT COMPLIANCE**

THE TEACHINGS IN THIS BOOK are based upon the authors' personal experiences as loan originators and business owners in the mortgage industry. The authors are NOT providing legal or compliance advice in any form. The credit advertising content in the "Strategic Financing as a USP" section of this book has been reviewed by legal counsel in Washington D.C. to ensure its compliance with federal and state regulations for advertising closed-end home mortgage credit. This book is for loan originator use only and should not be distributed to the public.

Truth in Lending

It is highly recommended that you seek the advice of legal counsel on state and federal regulatory matters involving credit advertising and marketing. A guide to the requirements for credit advertising under the federal Truth in Lending Act (TILA and Regulation Z) appears on the FTC's web site at: **www.ftc.gov/bcp/conline/pubs/buspubs/creditad.htm**

In particular, you should know that all interest rate references in credit advertising must include the Annual Percentage Rate (using the term APR); in this book, only simple rates of interest are used in advertising illustrations, for ease of reference. The APR is a simple statement of the effective rate on the loan, which takes into account not only the simple interest or stated rate, but the fees and costs of borrowing (also called finance charges). In advertising, the APR cannot be stated in type that is smaller than the type used to indicate the note rate. There are several commercial programs available to help with calculating the APR on mortgage loans.

A cautionary note about "trigger terms" in credit advertising: If certain terms are used in advertising credit, then other terms must also be included. The terms that "trigger" the use of other terms are called "trigger terms" and include: (1) the amount or percent of any down payment; (2) the number of payments or period of repayment; (3) the amount of any payment; and (4) the amount of any finance charge. Be careful about adding any of these terms to your credit advertising materials without including the required additional terms.

RESPA

The Real Estate Settlement Procedures Act (RESPA) has regulated mortgage lenders and loan originators since 1974. Administering and enforcing RESPA is the responsibility of the U.S. Department of Housing and Urban Development (HUD), along with the Department of Justice. Violations of RESPA constitute criminal conduct. A comprehensive discussion of RESPA and its public policy and purpose can be found at: **www.hud.gov/offices/hsg/sfh/res/respa_hm.cfm**

RESPA was enacted to help consumers become better shoppers for loans and settlement services, and to eliminate kickbacks and referral fees that unnecessarily increase the cost of credit. It is primarily the second purpose which creates the most risk of action by HUD against an originator. The concept of RESPA—at least according to HUD—is to eliminate all "costs" which might increase the cost of a mortgage loan to a consumer. HUD has taken this "charge" very literally and has no "exceptions" or safe harbors for things which, in most other industries, would be considered too small to impact a transaction. Additionally, when loan originators work with other real estate professionals, particularly in cooperative marketing campaigns, if one pays for the costs of the other, there is likely a technical violation of RESPA and therefore significant risk.

State Regulations

State regulations in almost every jurisdiction impact the business of mortgage loan origination. Where these regulations exist, they usually require disclosure of the originator's identity and license number, and whether the originator is licensed as a lender or as a broker. State laws and rules change frequently and are therefore not included in this book. The most current information will be available at **www.loantoolbox.com/strategicfinance**, where you can also download the complete *Strategic Financing Survival Kit*, which also includes buydown calculators, sales scripts, marketing flyers, conference calls, and other free Strategic Financing resources.

Your Responsibility as an Originator

A responsible loan originator knows that arranging a loan that a borrower cannot repay is not only bad practice, but it can also lead to potential legal liability for the originator. Please keep this in mind while reviewing this book, and recognize that the authors' suggestions are not "one size fits all." Strategic financing is NOT about pulling the wool over the public's eyes with false advertising; it is not about predatory lending and making loans at all costs. As a mortgage professional, you should always operate within the requirements of TILA, RESPA and all other state and federal laws and rules.

FOREWORD

By **Dave Savage**

THE MORTGAGE INDUSTRY HAS EXPERIENCED unprecedented change over the past five years. With this evolution have come numerous opportunities and many new challenges. Only those who truly understand how to adapt to this new environment will survive—and thrive.

Strategic Financing describes the eye-opening, brutal reality of the current economy, providing essential advice on how to succeed in this market. It offers a clear outline of current opportunities and the best tactics to leverage them. How do we stop competing on rates? How do we generate a life-long stream of referrals? How do we watch out for everyone's best interests? The book is all about tackling critical problems and offering creative, concrete solutions.

Don't expect the standard marketing recommendations in this book. *Strategic Financing* goes beyond quick tips and advice. It provides a new way to look at mortgage origination, and an in-depth analysis of a wide array of borrower scenarios, key considerations, and possible solutions.

Strategic Financing also addresses the evolution of the mortgage professional, and the associated responsibilities that have come with the change in role. As programs have become more sophisticated, loan officers must realize their power in enabling—or inhibiting—the financial stability of their clients, and that responsibility should not be taken lightly. *Strategic Financing* provides creative ideas and helpful advice on how to best guide borrowers as they make one of the most important financial decisions of their lives.

Authored by two of the nation's preeminent mortgage industry experts, *Strategic Financing* contains invaluable insight and time-tested advice. Bill Dallas is a visionary, and one of the most successful entrepreneurs in the history of the mortgage industry. Tim Braheem became a legend as one of the nation's leading mortgage originators, and he is rapidly becoming one of the industry's top motivators and thought leaders.

Strategic Financing is a growth medium for any interested and willing loan officer. It will open eyes and reveal previously undiscovered opportunities. Without a doubt, it can dramatically improve the effectiveness of any originator. As such, this book gets my highest recommendation and is a must read for anyone looking to make a long-term career in this business.

Dave Savage
CEO of Mortgage Coach
www.MortgageCoach.com

DEDICATION

I have dedicated my business life to mortgage banking and the miracle of homeownership. After almost three decades of helping originators help folks own homes, the fire still burns bright. I love what we do together.

This book is dedicated to mortgage originators who make the dream of owning a home happen each and every day. May our words serve to help you survive and prosper in the days and years to come. Many blessings and safe travels.

B.D.

This book is dedicated to mortgage professionals who hold ethics and responsibility to clients above all else.

And to the LoanToolbox staff, who have helped make my dreams a reality.

T.B.

PART I:
THE BRUTAL FACTS

By **Bill Dallas**

Mortgage Folks Have Short Memories

Some people suffer from selective amnesia, while others simply don't remember because they have not been in the business long enough. What have they forgotten? Two things:

> First, the mortgage business is extremely cyclical. What goes up eventually comes down, and often comes down *hard*.
>
> Second, and most importantly, there are a few "tried & true" lessons others have learned to confront these vicious phases. We need to pay attention and listen.

The bottom line: Understand where you are, adapt, and you will survive the cycle. The separating factor that ensures survival when market cycles change is the ability for the originator to *quickly* adapt to the new selling environment. Most originators enter the market during a refinance boom and, for this reason, have never participated in a "relationship-based" business model. It's this lack of understanding of how to source business through relationships—and a lack of experience in how to shift their selling strategy away from the vanilla, A-paper 30- and 15-year fixed rate sales script that they were baptized on—that often spells trouble for originators trying to adjust to new market conditions.

Strategic Financing was written to assist originators in adapting more rapidly. I am going to share with you some ideas on how to rise up out of the ashes and prepare yourself for what will surely be a new environment ahead.

Download the ***FREE*** *Strategic Financing Survival Kit* at **www.loantoolbox.com/strategicfinance**

What is Behind the "Boom" Cycle?

The market conditions have been ideal for mortgage originators in recent years—the "perfect storm" if you will.

Mortgage interest rates fell to their lowest levels since the 1960s, making it much easier for folks to buy houses. Many investors who were burned in the stock market bubble of the late 1990s decided that real estate was a better bet, and they were spurred on by Alan Greenspan and a very vigilant Federal Reserve Board, who systematically reduced interest rates in response to the September 11, 2001 terrorist attacks on our country.

"Baby Boomers," the largest generation in US history, surprised everyone by purchasing second homes and speculating on rental units instead of burning their mortgages as they were expected to do. At the same time, the Boomers' children began buying their first houses in record numbers.

Other first-time homebuyers, led by Hispanics and Latinos, flooded the market faster than the California gold rush. As a result, home prices went through the roof, increasing 100%-150% in most markets in less than five years. Existing homeowners also took advantage by refinancing in epic proportions, converting their equity into cash.

The aftermath of the refinance boom is neither pretty nor kind. And admittedly, it leaves little time for contemplative thinking about how the business ought to be run. Survival for almost all mortgage companies is a very real concern. Even if you suffer from short-term memory loss, the industry recognizes that what we are experiencing is not merely a cyclical downturn. Some of the pressures being faced are short-term and cyclical, but the pressures that threaten survival are not. The principal short-term pressures are real, but let's recognize them for what they are. Some of us have seen them before and have been able to work through them.

The principal short-term pressures are real, but let's recognize them for what they are.

The short-term challenges encountered so far include:

1. **The switch from prime fixed rate mortgages to interest only loans, 45-year amortization mortgages, payment option ARMs, and sub-prime.** This activity is clearly cyclical and will be an issue for mortgage originators until the inverted yield curve corrects itself, or until the FED reverses its predictable ¼ point interest rate increase policy. It is painful for most prime mortgage originators because the shift has left them vulnerable to products they don't understand and have trouble competing with. Being properly scripted to educate the customer on these new financing options is vital to your success as you strive to position yourself as a trusted mortgage advisor, someone who borrowers can count on to help achieve short- and long-term financial goals. As an originator, you need to constantly evolve your scripting and presentation skills. Your conversion ratio from lead-to-closed loan must improve, as sales opportunities are typically less plentiful when a refinance cycle ends.

2. **Intensified price competition and margin compression on prime and sub-prime loans.** This is somewhat normal and rational but almost always painful. Too many people chasing too few loans is always a recipe for disaster. The condition persists until some of the weaker players exit. The situation destroys the economics of the business in the interim because both unit cost and revenue margins are significantly affected in a negative way. But the market will eventually regain some sanity, and the savvy mortgage originator will thrive. Originators who compete on rates versus service and advice will lose.

3. **Bloated origination cost-to-produce (CTP).** Keeping your costs variable and value-based (as opposed to production-based) is critical to survival, but we never seem to learn. In our attempts to squeeze every last loan out of our customers, we layer in resources any way we can during the boom. Unfortunately, much of this cost is fixed in the form of salaries, systems, infrastructure, bricks and mortar and, finally, hiring really poor "last in, first out" account executives and loan officers. However, eventually we can and do shrink our bloated operations back to what is needed to support a rational origination environment.

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4. **Softening credit and rise in repurchases.** There are three ways to compete for home loans: price, service, and loose underwriting. God help you if you choose the third. Competition for loans reaches the zenith at the end of any cycle; therefore, almost any loan can and will be funded. As Wall Street constrains the capital markets, lenders are forced to restrict the flow of loans on Main Street. Mortgage originators are caught in a pickle trying to determine what the market wants until Wall Street and Main Street finally hold hands. We are not there yet, although some companies underestimate the amount of cash and capital it takes to withstand the market's sometimes brutal requirements.

5. **Real Estate drops out of favor as home price appreciation declines.** The focus on collateral heightens. Two or three appraisals, an AVM (automated valuation model), a BPO (buyer property opinion), a desk, field or enhanced desk/field review appraisal is not enough. More and more homes appraise for less than the asking price as property values begin to stagnate or decline, and listings begin to pile up. Today's market is even more challenging because we have been able to combine innovative yet risky high LTV loans (with seconds up to 100% CLTV) with even riskier documentation standards like stated NINAs (no income/no asset) and very low credit scores.

The Rise and Fall of Encyclopedia Britannica

Let me share a narrative from another industry that resonates with the mortgage industry.

In his book, *Blown to Bits*, Philip Evans tells a fascinating tale about the evolution of Encyclopedia Britannica, Inc. The company built a dominant brand (Your family owned a complete set of Britannica's, right?) using one of the most aggressive and successful direct sales forces in the world. By targeting middle-income families and focusing on their aspirations for their children, the company developed a marketing proposition as compelling as the intellectual content itself.

By 1990, sales of Britannica's multi-volume sets had reached an all-time peak. The company had led market share and enjoyed steady growth, generous margins, and 200 years of success. Since 1990, however, sales of Britannica—and of *all* printed encyclopedias—have collapsed by over 80 percent. So, what happened?

Cyclical forces at work reshaped the way information was shared and blew Britannica away. Microsoft began providing a digitized encyclopedia on CD-ROM with every purchase of Windows operating system—and they gave it away for FREE! Not too long after that, the Internet went mainstream, followed by Google. Now just about any information can be found online in moments.

I find some very interesting parallels to the mortgage industry:

1. The most venerable can prove the most vulnerable.
2. A strong culture and dominant competitive advantage can blind leaders in times of change.
3. Incumbents are saddled with legacy assets while insurgents are not (consider prime and sub-prime in the mortgage business).
4. Winning is not a zero-sum game, which means the total value of players and value can rise and fall.

Aren't mortgage originators (direct sales force) the most venerable? Don't we have generous margins, steady growth, and a dominant market share? Are there forces at work reshaping the way we do business? Unfortunately, the answer to all of these questions is a resounding *YES!*

The Rules of the Game Are Changing

While all of these dynamics are painful to endure in the short term, they are usually not life threatening to experienced mortgage originators. But unlike the 1981-83 blood letting, the 1987-98 downturn, the 1994-95 collapse, the 1998-99 disintegration, and the 2001 terrorist attacks, the 2005-06 correction does have some major life threatening aspects. In this respect, the current

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adjustment period is not typical and should not be treated as such.

Transformational change refers to change that is structural, permanent, and irreversible—it literally changes the rules of the game. At our company, Ownit Mortgage Solutions, we employ a formula to help us facilitate change. In order for **C**hange to occur, **D**issatisfaction, **F**ear, and **R**esistance to change must be greater than your current reality! Expressed as a formula it might look something like this:

$$C = DFR$$

Transformational change typically occurs after major life events: heart attacks, the death of a loved one, divorce, natural disasters, etc. In the mortgage business, transformational change generally requires a cyclical downturn. As difficult and threatening as the mere prospect of change is, it must be undertaken. Right now there are many gravitational forces aggressively pulling to produce fundamental changes in the origination side of the mortgage business. These forces are tightly linked and will leave the mortgage origination business permanently changed.

The Law of Purchases

In physics, gravity is the tendency for masses to accelerate toward one other. In the mortgage industry, purchase transactions are the gravity forces that hold the market together.

In 2003, mortgage originations approached $4 trillion, and almost 70% of the loans were refinances. But this was a freak of nature. Since 1979, home purchases have comprised 65-70% of the total market. Therefore, my own Theory of Relativity is that we will return there—quickly.

In 2006, the Mortgage Bankers Association of America predicts total loan originations to come in at or around $2.5 trillion (source May 2006 MBA Mortgage Finance Forecast), with $1.5 trillion in purchases compared to only $785 billion in refinances.

In a purchase market, lead acquisition is absolutely critical! Originators who have experience in a purchase market already know this. But those who have only originated during a refinance boom lack the referral relationships that provide a consistent flow of potential home buyers. It is critical that you are executing proven relationship development campaigns to the usual suspects: Real estate agents, Builders, Accountants, Financial Planners, Insurance Agents, and FSBOs. One of the best sources for these types of turn-key marketing campaigns is LoanToolbox (**www.loantoolbox.com**).

The New Housing Reality

Home prices have surged past income levels, leaving the American dream of homeownership suffering from the nightmare of affordability. When you consider that Americans are gradually getting older (in 1970 median age was 27, today it is close to 40) and fewer traditional households are forming, it is obvious that strong forces are work to throw our market into reverse.

Hispanics and Latinos (documented or undocumented, nonresident alien or resident) are expected to make up 25% of the United States population by 2050. The National Association of Hispanic Real Estate Professionals (NAHREP), the fastest growing trade group in the land, estimates that Hispanics and Latinos represent a $44 billion loan origination opportunity if it can be sorted out. At Ownit, close to 60% of our Southern California home loans are originated to individuals with Hispanic and Latino surnames.

The loan originators who focus on the Hispanic and Latino emerging market will be highly rewarded.

The loan originators who focus on this emerging market will be highly rewarded. The demographics indicate that Hispanic and Latino home buyers are getting ready to hit their stride as a significant force in Real Estate. The loan originators who provide educational marketing campaigns to this segment will be pursuing a niche that few others have tapped into. But there is more—much more!

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The Economic Mindset of the Mass-Non-Affluent (MNA)

In the 1990s, we began to see changes in our borrower's profile. First and foremost, the salaried W-2 customer with two years of stable employment history was systematically laid off by Fortune 500 companies everywhere. As a by-product, borrowers reluctantly became self-employed. Who are these individuals? We defined the group as the Mass-Non-Affluent (MNA)—households or individuals with income of less than $100,000 and/or assets worth less than $100,000. According to the US Census Bureau's 2002 Demographic Supplement, there are 84 million households that fit this description.

The majority of these folks are between the ages of 35 and 54. It is estimated that 79.5% live inside a metropolitan area, and 29.3% live in a central city. Family households comprise 70.6% (53.4% are *married* families), while non-family households make up the other 29.4% (23% are homeowners who live alone). Approximately 41% of these households have only one wage earner; 45.2% have two or more. Full time workers comprise 57%, with 20% working part time and 23% not working. More than half have more than one job.

What keeps MNAs awake at night? A comfortable retirement is almost a universal dream, followed closely by the desire to own a home and to start a business (Manulife Financial Dreams and Fears of American Workers 2002). The disappointing reality is that most have fallen behind schedule, and few were ever on track to begin with. Of particular interest is that three quarters believe they will have enough money for a comfortable retirement. Unfortunately, most of their optimism is based on unlikely assumptions and a poor understanding of investments, while their ability to invest wisely is declining.

Why is this? MNAs just can't seem to save money. At the same time, the proliferation of savings vehicles has created mass confusion. Basic savings accounts, savings bonds, trusts, brokerage accounts (mutual funds and securities), retirement accounts (IRA/Roth IRA), ESAs, 529 savings plans—the

list goes on and on, and the appropriate choice depends on income, risk tolerance, and having a viable plan. The biggest financial decision MNAs make is to own a home. For most, it is their primary (and often times only) asset.

How does this information help us? Can mortgage rules be tweaked to allow more of these folks to qualify? Can the mortgage process be changed to allow pre-retirees to use the equity in their homes more efficiently? Can we combine mutual funds and mortgages? Can we customize our decision-making analytics to accommodate new housing realities such as unmarried women (16% of the market), domestic partnerships, multiple occupant co-borrowers, undocumented income, non-resident aliens, tax identification numbers (TIN), no FICO, and other thin-file borrowers?

Originators who are focused on evolving their program and guideline knowledge will be successful as we head into this next cycle. Their ability to structure and place less traditional loans will be at the core of their success. Having reliable and progressive sources to fund these loans is essential.

Originators who are focused on evolving their program and guideline knowledge will be successful.

Ownit has a very Unique Selling Proposition (USP): *We make our own rules!* Our underwriting guidelines are developed specifically to meet the market's needs. Ownit Account Executives constantly share feedback from the originators working in today's changing market. NIVs are a great example. Our Account Executives told us that originators were using the NIV product as a "liar's loan," making up income to qualify. We launched our RightIncome and RightRatio products that expanded income sources and enabled originators to close legitimate loans.

Addressing a borrower's retirement needs requires an understanding of the long-term impact of different loan products. With mortgage planning software like Mortgage Coach (**www.mortgagecoach.com**), the originator's job of comparing various loan options is vastly simplified. It's not uncommon for a

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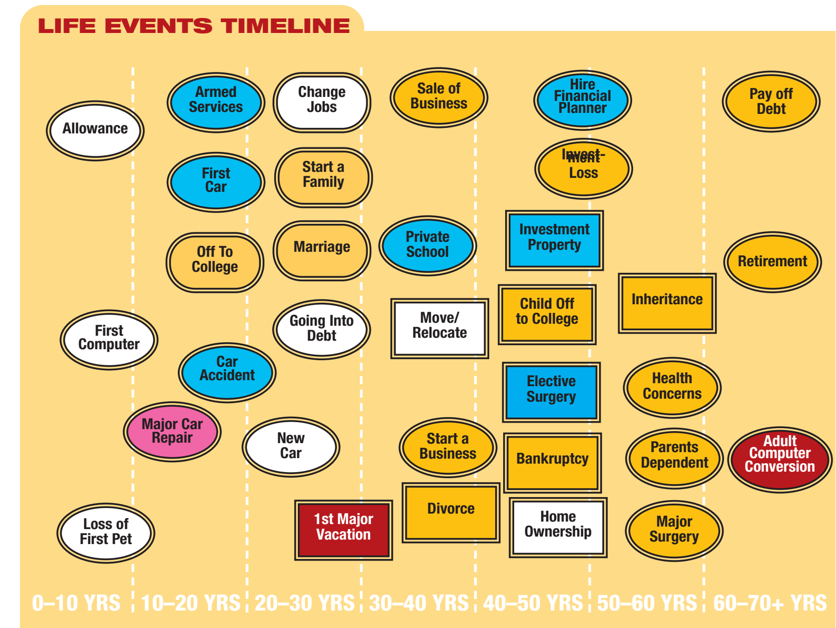
borrower to discover that a particular loan program could save them hundreds of thousands of dollars over the course of time. Loan originators with this tool in their arsenal are sure to stand out from the pack.

Own the Customer with a Life Events Timeline

The solution to developing long-term customer relationships is to serve customers during the significant events of their life. Each event has a life cycle of its own and presents a multitude of origination opportunities. The events on this timeline are fairly common, although some events make more of an impact. If we can help our customers face high emotion/high financial impact events, we will win them as customers for life.



Let's start with what we know today—mortgage origination and home ownership. Our average customer is 41 years old with $73,000 in annual income, a FICO score of 644, and under $100,000 in assets (Mass-Non-

Affluent). Our goal is to help our 41-year-old MNA achieve his or her dream of retirement. This begins with home ownership but doesn't stop there. As originators, we should use the home ownership life cycle and look to build bridges from one life event to the next—anticipating our customers' needs before they ask for assistance.

The traditional goal of homeowners was to pay off the mortgage well before retirement, if possible. Today, many Americans seem to have forgotten that notion. They use their home equity more like a piggy bank or ATM machine. In the process of refinancing, they often borrow a bit more to consolidate debt and/or to handle significant life events. Such "cash out" refinances totaled $139 billion in 2004, according to Harvard's Joint Center for Housing Studies. Home equity lines of credit (HELOC) have almost become a giveaway by banks that are looking to compete with originators in creating "customers for life."

The desire to own 100% of the customer's wallet is fueling a battle for control of the customer at point of sale. Statistics tell us that in each calendar year, 17% of home owners will borrow money against their home using one of these financing vehicles. Therefore, the loan originator with 200 past customers in their databases will have 34 opportunities to originate loans EVERY YEAR!

Just as a diligent financial planner reviews his or her customers' portfolios on a consistent basis, loan originators must proactively communicate with their past clients at least once a year. An "Annual Mortgage Planning Review" is a formal review of your clients' debt structure to ensure that they are adequately prepared for various life events. These reviews significantly increase the likelihood that your clients call you and not your competition when the need arises. LoanToolbox provides an excellent system (including scripts) for Annual Mortgage Planning Reviews.

At Ownit, we attempt to match product offers with Life Events. For example, we can add a HELOC to each of your loan approvals, or we can create soft prepayment penalties that are reduced or waived if the customer refinances through you.

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The Point of Sale War

This bullfight used to be waged by loan matadors who used charm, perseverance, skill, guile, or whatever tricks they possessed to kill the bull. Winning the face-to-face competition with a real estate agent was typically temporary.

Today, this competition is being waged at the corporate level, and the matador's role is at risk. Some mortgage originators are pursing alternative distribution channels in an effort to avoid dependency on the real estate agents. Some of these efforts have been successful: direct marketing, lead generation, affinity group marketing, and even Internet-based. But the dominant channel of distribution is still the Real estate agent. Both real estate agents and originators realize that the one who owns the customer at "point of sale" ultimately controls the business.

Real estate agents, who traditionally shied away from direct involvement in the mortgage process, now want to own a piece of this pie. Why now? Real estate agents and originators are experiencing the same "squeeze." As real estate agent commission rates continue to slide, they will try to earn revenue from all of their former business partners: title and escrow, insurance, appraisal, credit, banking and home loans.

Almost every large real estate company is already in a Controlled Business Arrangement (CBA) or Affiliated Business Arrangement (ABA) with a lender partner. Permissible arrangements and compensation schemes for these arrangements are governed by the Real Estate Settlement Procedures Act (RESPA), even though the "rules" seem to be in a perpetual state of flux. Nonetheless, real estate agents are more determined than ever to control everything surrounding the point of sale. In fact, Latino/Hispanic real estate professionals operate as the mortgage broker in almost 75% of the transactions.

Ownit recently purchased Security Pacific Home Loans (SPHL), the company that pioneered Streamline™ and the Real estate agent Assisted Mortgage™ (RAM). Streamline is an automated system that offers real estate agents,

builders, and brokers the opportunity to do home loans for their clients and earn revenue by having a low-cost, hassle-free, "in-house" mortgage lending service that is RESPA compliant.

Capturing point of sale is the key to controlling the purchase real estate market. Approximately 92% of all home loan transactions involve a real estate agent. The agent will direct the consumer to mortgage services in over 88% of the transactions. Streamline can work with the existing mortgage relationship and supplement the in-house mortgage operation. It provides a broad range of choices to your agents and clients, allowing you to capture a higher overall percentage of buyer-side transactions. Streamline is cost effective, fully compliant with RESPA, and competes well with traditional lenders, ABAs, and other types of joint ventures.

A New Origination Environment

These forces—the law of purchases, the new housing reality, the economic mindset of the mass-non-affluent, owning the customer via life events, and the point of sale war—are working in some unplanned lock-step to drive the transformation of the "front end" distribution system for mortgage originators. If we fail to aggressively address the short-term pressures on production, we may survive the cyclical adjustment only to find we are too far behind to reach competitive stability. It is easy to paint a picture of insurmountable challenges—but this is simply not the case. Let's try to put current market dynamics into some perspective and then suggest how you can win in this new competitive environment. I predict that by the end of 2007:

- End-to-end electronic origination will virtually eliminate loan processing and shopping as the broker's competitive advantage. Automated underwriting, appraisals, verifications, electronic signatures and XML data will link our processing software to pricing engines that will be offered direct to real estate agents and consumers. When the mortgage loan truly becomes a car loan or HELOC, brokers won't be able to differentiate based on superior process, shopping, speed, accuracy,

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product offerings, and cost. The result is that our low-cost producer advantage is lost, although it will be a huge win for originators that truly provide value through education, mortgage planning, and deal structuring expertise at point of sale!

- Over one quarter of our business will come to us over the Internet or from lead aggregators. Web-based networks and technology platforms will be the dominant technology across all origination channels and backroom functions. We will begin to see connectivity among all mortgage participants, and web-enabled applications (pricing, processing, closing, underwriting) will be used across distribution channels and be agnostic to user. The need for bricks and mortar will give way to clicks and mortar, eventually challenging the need for the branch system in total.

- Large-scale adoption of broadband communication networks (cable, DSL, wireless) by households and small businesses will accelerate the growth of online mortgage originations, online customer service, and e-commerce within the mortgage banking industry. Arguably, the best known brand in the mortgage business is LendingTree®, an online lead capture service that sells consumers on the idea that "when banks compete, you win!" Greater bandwidth will also allow voice and video to combine for "high tech, high touch."

Gone are the old ways of doing business:

- manual applications
- semi-automated process
- manual underwriting
- haphazard compliance and disclosures
- physical closings
- slow approvals
- errors
- fraud
- repeat data entry

- redundant validation (credit, appraisal, income)
- massive inconvenience
- low tech, lots of touch points, transaction feel

Say hello to a changing loan origination process:

- automated applications by loan officer
- automated processing
- electronic data interchange (EDI)
- automated underwriting and pricing engine
- loan-level compliance, disclosure and quality control
- remote closings
- rapid/instantaneous approvals
- single point of entry and database management
- loan-level fraud detection, broker scores, fraud insurance
- low-to-no documentation
- data captured once
- high borrower convenience
- data is mined and multiple products offered
- high tech, high touch makes the customer feel at home

Adapt or Perish

The natural thinking at this point is to ignore the key long-term trends and focus on cyclical solutions for pricing and products. Why? Because it is much easier for originators to sell than it is to change. Understanding how and where to compete long term seems to act as an effective catalyst for change. As a result, the need to fundamentally reexamine the origination business still exists for most. Let me suggest four models to consider, and then several ways to adapt:

1. **Own the streets.** This can only be accomplished with superior service that is cheaper, faster, and better than the competition—from the borrower's perspective. Originators can develop the slickest web-based loan origination software and establish all the proper rewards to

deliver world-class service, but it won't happen if we fail to change the production-based culture embedded in our people. It is impossible to get employees to provide consistent superior service to customers—regardless of the tools and products provided to them—if those folks are compensated to do other things, and they don't feel good about how the company treats them.

Customers want clear answers to questions like, "Who is the low-price leader?" "Who offers the best service?" "Who offers trust and security?" "Who is an 'ask for' name in the business?" They want what they get when they purchase other products—an ally who offers dependable, trustworthy service, and a low-price guarantee.

2. **Own the customer's wallet.** An alternative to owning the street with service is the more ambitious goal of integrating the consumer's entire balance sheet, of which mortgage finance is one of the largest components. This is the cross-selling strategy of global banking behemoths like Wells Fargo, Citibank, and Bank of America. The companies in the best position are not traditional mortgage specialists; rather, they are companies like Charles Schwab, Merrill Lynch, Ameritrade, Lending Tree, and Capital One.

A formidable barrier to the dream of limitless cross-selling is the customer's preference for best-of-breed solutions and the widest possible array of choices, as opposed to a deep relationship with one trusted source. This gives hope to the mortgage originator's dream of owning 100% of the customer's business but will require a big mental shift on the part of the loan officer. It is vital that originators develop strong relationships with synergistic financial experts, such as accountants and financial planners, with whom they can refer business and create a networking alliance. Otherwise, they will continue to lose business to the originators who *have* partnered with these valuable referral sources, whenever a cross-selling opportunity presents itself.

For more ideas about networking and cross-selling opportunities, go to **www.loantoolbox.com/strategicfinance** and listen to the FREE audio interview with Dr. Ivan Misner, the CEO of Business Network International (BNI). BNI is the world's largest referral organization,

generating over 2 million referrals per year. You can learn more about BNI at **www.bni.com**.

3. **Own the homeownership experience.** Another sweet spot for originators is to bring together the mortgage and all of the other products and services needed to buy and maintain a home. It would be like marrying Bob Villa to Home Depot and Countrywide! Winners will need to offer a broad array of products as well as access to a number of high-quality loan providers, much like Lending Tree. Winners will also need to own the real estate agent relationship, and they will need to combine product, marketing, and delivery innovation in order to sustain their edge.

   We need a strategy to reinforce the branding promise to be a trusted partner in all things "home". This partnership with the customer will deliver incremental profits, greatly enhance the promotion of your products and services, and build customer loyalty. The expanded product line might include homeowner and hazard insurance, title insurance, home warranty insurance, life/mortgage insurance, Home Depot Rewards, Do-It-Yourself (DIY), and home improvement suggestions and products. The goal is to show customers that your commitment to their homeownership experience doesn't end when their loan closes; rather, it is only just beginning!

   By now you may be asking yourself, "Am I better off trying to be the jack-of-all-trades, or aligning myself with top quality experts in these fields who can refer business to me and vice versa?" Both Tim Braheem and I have always preferred the "Alignment" business model, as we believe that many loan originators have enough challenges trying to figure out how to do their own jobs well, much less try to learn other vocations. You should always be on the lookout for reputable business partners in these vocations to add to your referral network.

4. **Provide unique tools and products.** Loan originators need access to unique products that link them to the customer. Retention of the customer relationship and the loan's servicing revenue is the battle that will be waged for years to come. Financial behemoths, armed with weapons of mass destruction, will drop "smart bombs" on the customers in their portfolios. This is a complete turnaround from their peacetime position of prior years. Why? Financial Accounting Standards (FAS) rules have forced these war-torn lenders to place a value on loans when they are originated, and to expense them as they pay off. To add insult to injury, hedging these portfolios is very difficult and expensive. Therefore, most lenders have resorted to developing products that tie the borrower to the company and, as a result, preclude originators from the next refinance. Ouch! What are they doing specifically?

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- note modifications
- streamline cash-out refinances
- pledged asset loans
- Home Equity Lines of Credit (HELOC)
- HELOCs integrated with first mortgage
- portable loans
- linking mortgages to cars, cards, and other products

They are also aggressively marketing to these customers by phone, mail, and monthly billing statements. Lenders have grown or purchased call center specialists to assist them with their assault on the customer. They broadcast free offers for property appraisals, credit reports, help with FICO score improvement, relocation and community information, moving cost estimates, FSBO listings and market value information, rate and loan information, as well as discounts on all sorts of other home ownership products and services.

Their biggest advantage, however, comes from data warehousing and data mining. Institutions with ongoing access to customer profile and loan-level information possess the analytical tools needed to predict future customer behavior. At MindBox® (**www.mindbox.com**), a technology company focused on the financial services industry, we used this type of predictive logic to make offers and scripts that helped call center representatives know exactly what to say. We could then assess their effectiveness and prepare them for the next call.

The Mortgage Coach (**www.mortgagecoach.com**) offers another great tool to make every contact with the customer more effective. Armed with their software, it's easy for a call center representative or mortgage originator to inform borrowers of the long-term financial benefits of refinancing, taking out a second loan, or choosing a HELOC over an auto loan.

A Different Kind of Loan Originator

The loan originator has to emerge as the trusted real estate finance advocate directly connected to the customer, rather than the mistrusted middleman. The idea is to create value for consumers by offering home loan products and making them very simple. Our mission must spotlight helping people into a better financial position. The key question is, "How do we create value for our borrowers while continuing to make money for ourselves?" The answer lies in coming up with home loan solutions that make the mortgage process quicker, cheaper, and easier. This is precisely why Ownit Mortgage Solutions created the RightLoan™.

The idea is to create value for consumers by offering home loan products and making them very simple.

Borrowers have changed dramatically over the last 40 years, while underwriting rules have not. Ownit aims to help originators define new analytics (DNA) and create appropriate guidelines to make the right loan to the right borrower. Our unique rules are designed to fit our mass non-affluent borrowers (MNAs). As borrowers continue to team up and families form differently, we need to be prepared with products and pricing to adequately predict the loan's performance. Our risk-based pricing engine prices all loans at point-of-sale, and enables you to use one set of aggressive, up-to-date, rules to do conforming, non-conforming, alt-A, non-prime, sub-prime, FHA, VA and HELOC products—quicker, cheaper, and easier.

Loan originators will be able to offer better rates if they can automate the front end of the loan process. To accomplish this we must increase connectivity to all business service providers: file management, loan processing, underwriting,

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loan servicing, database management, customer relationship management, loan pricing, etc. And it all needs to appear seamless to the customer. Think Wal-Mart meets Home Depot—a low price promise on the outside, and intensive inventory and vendor management at its heart. Here are some ideas.

Origination 101

Most mortgage originators and processors still do a lot of the tasks the old way with manual labor. But with business process automation, a host of these tasks can be performed with little or no human intervention. Once the business process is mapped, the same kind of automation can happen for every process and every service, from application to closing. Add this up and you have the ingredients to improve the customer experience and create a unique kind of originator. The result will be faster turnaround, lower overall costs, and higher customer satisfaction. Simply put, the days of taking hand written 1003's must end, and the originator of the future must embrace technology as a friend and not a foe!

Risk-Based Pricing & DNA

The fundamental skills of an originator also need to change. Yesterday's broker could rely on consulting talent. They operated primarily as a guide to a very cumbersome and lethargic loan process. With the help of automated engines, today's loan officers must price loans based upon their risk and value. What has value to investors might present risk to borrowers, and vice versa. A simple understanding of the three Cs (character, credit and collateral) has given way to a more robust way to define and predict risk: loan DNA (Defining New Analytics).

For the last 30 years, the mortgage business has been focused on the conforming box. Driven by Fannie Mae and Freddie Mac, guidelines and rules emerged, and they were internalized by most of us. Loan limits, guidelines, debt ratios, acceptable income, asset verification, gift letters, loan to value

(LTV) ratios, and combined loan to value (CLTV) ratios were passed down from one generation to the next like a tribal ritual or rite of passage. Unfortunately, while most of these guideposts served us well, they are no longer adequate for today's fast-paced, volume-driven mortgage industry. Answering the following questions may be the best way to understand the complexity of what needs to transform:

What has value to global investors?

- yield or WAC (Weighted Average Coupon)
- LIBOR indexed ARMs
- prepayment penalties, hard and soft
- 30, 45 Year mortgages and Interest Only loans
- non-agency standard loans (alt-A, sub-prime & non-prime)

What risks are not priced into yield?

- fraud
- premature prepayment (churning)
- documentation type (stated vs. full doc)
- global market movement

What creates severity or loss of principal?

- high loan-to-value (LTV)
- high combined loan-to-value (CLTV)
- 125% equity loans
- 100% purchase loans
- ineligible or poor collateral
- faulty appraisals
- property types (over 4 units)
- no credit enhancement (MI, bond insurance, over collateralization)

What causes delinquency, foreclosure, bankruptcy, or frequency of default?

- job loss
- abnormal medical conditions & expenses
- divorce

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What predictors have high correlation to default?

- low FICO or Vantage scores
- non-owner, second home, or investor-owned property over 4 units
- stated & no income verification (NIV) types
- third party originated loans (broker or correspondent)
- prior bankruptcy, foreclosure or default

What predictors have low correlation to default?

- debt-to-income (wow!)
- loan amount
- down payment and source of down payment
- appraised value
- LTV & CLTV (remember, this is default not severity)

Purchase money, owner-occupied, single family, 1-4 unit, full documentation, high FICO, low loan amount. The lower the risk the better the price. It should be that simple, right? Unfortunately, most of the time it isn't.

Risk-based pricing is the ability to estimate the risk inherent to a transaction. Our role is to help lenders predict default and price loans accordingly. But nobody does that today. Most originators bend guidelines, or hide information so that a borrower can qualify for a better loan. Why? Because the rules were not meant for today's home loan borrower. These guidelines were created for Ozzie Nelson and his cul-de-sac family, not Ozzie Osborne and his dysfunctional family.

Over the last 10 years, my companies have dedicated their principal business resources—time, money, and effort—to product innovation. Why? Because the rules of the game could no longer be obeyed. And if the rules cannot be obeyed, they should be changed or broken.

For that reason, we leaped to the leading edge of automated underwriting with Freddie Mac and Loan Prospector (LP). MindBox built the rules engines for both CLUEs for Countrywide and Desktop Underwriter (DU) for Fannie Mae. At my former firm, we launched Direct Access, the novel risk-based pricing/product eligibility engine for non-prime loans. We shaped FICO scoring as one of the

standard bearers of risk measurement for mortgages. We pioneered the 100% purchase loan. We cultivated the global market for LIBOR-based ARM loans. We institutionalized innovation into the genetic code at Ownit Mortgage Solutions, which has formed a group of people dedicated to reshaping the mortgage business with our partner—the mortgage broker. The Right Loan, The Right Score, The Performer Score, Right Income, Right Assets, Right Doc, Right Deal, the 40-year loan, the 45-year loan, the 2/43 and the 3/42 are perfect examples of this product innovation.

As a result of this book, Ownit is creating new programs that combine a 45- or 50-year amortization loan with a 2- or 3-year temporary and/or permanent buy down. The result is a fixed-rate loan that provides some of the benefits of an adjustable rate mortgage, but without the long-term risk.

But even if the current overcapacity goes away and pricing pressures abate, the pressure to fundamentally rethink and redesign the mortgage origination process will remain. The gap between today's performance and what is possible with a little innovation and technology is huge. The loan originators who dedicate themselves to evolving their knowledge of deal structuring will win in the future. The vanilla A-paper loan will become more of a commodity going forward, and margins will continue to thin.

Traditionally, the top mortgage producers excelled at originating, processing, and maintaining relationships with real estate agents, builders, and borrowers. There are firms and loan representatives who have taken these skills to the next level and are adept at both closing the transaction and retaining the customer relationship. With the onset of sophisticated CRM software and relational databases, customer information can be sliced and diced so that sophisticated originators can highlight and keep in step with their customer's life events. The resulting gap between these firms' skills and traditional mortgage brokers will continue to widen, and firms will likely begin to specialize by marketing or geographic channels.

There is a mental picture that seems to act as an effective catalyst for mortgage originators—a focus on customer for life and significant life events. A desire for good service during the transaction is laudable, but it doesn't solve the industry's need to own 100% of the customer's wallet, or our need to sell multiple products and retain the customer. Adjusting our view of the customer forces us to question each step of the process—what products do we need, when do we need them, who does it, how should it be done, should we do more, should we do it at all, and so forth. The resulting questions and answers lead to understanding your objectives, allowing you to shift resources based upon your strengths and weaknesses.

Dependable, friendly, trustworthy service has always been the trademark of a great originator and one of our greatest competitive advantages.

Let me speak to our biggest weakness for a moment: the customer's growing lack of trust. Dependable, friendly, trustworthy service has always been the trademark of a great originator and, as the incumbent, one of our greatest competitive advantages. Somehow, between a rapidly changing regulatory environment and our ability to increase interest rates to generate backside premiums, we seem to have lost our customer's confidence. We are no longer one of their trusted allies.

Refinance environments create this situation as originators stop consulting and instead focus their efforts entirely upon facilitating loan volume. This combined with a dramatic influx of new, uneducated originators creates a formula for distrust and disappointing customer experiences. The successful loan originator of the future will get back to basics and will use systems like "Page 5 of the Loan Application" and the "Annual Mortgage Planning Review" to renew the trust that has been lost.

We must put aside the assumptions of the old competitive world and compete according to new rules of engagement. As "predatory" practices, RESPA and TILA reform, Fair Lending, and new tangible borrower benefit standards emerge, we have little choice but to lead by example. If we don't take control of our regulatory future somebody else is clearly going to do it for us.

We need to recognize the transformation at hand and help make it happen. We need to under promise and over deliver. We need to find ways to differentiate

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between originators—a good housekeeping seal of approval, if you will. LoanToolbox and Ownit Mortgage Solutions are currently working with Interthinx (**www.interthinx.com**, formerly Sysdome, a Dallas Capital owned company) to create a broker "score". This score could serve as a way to differentiate originators and build relationships with lenders and investors. I see a future where each loan broker is known to the system, and we are able to price loans better to better loan officers, and get rid of the one-price-fits-all model.

We clearly need to tie compensation to value, performance, and risk instead of tying it to volume. In fact, as simple as it sounds, value-based compensation attached to a broker scorecard may be the answer to becoming a trusted financial advisor. People do what they are compensated to do. It is difficult to walk away from core competencies that were built over decades. And it is even harder to govern performance from mortgage brokers and other lenders to whom one is tied by long-standing relationships or contractual obligations. Ultimately, it is even more difficult to improve the distribution systems, alter sales commissions or change processes that have held up for decades.

So, as a broker, how can you accomplish this? Simply answer the following questions: "What happened to the loans we originated?" "Did the client make the first payment, or the first four payments?" "Did the client refinance?"

Begin by demanding performance data from all of your approved lenders. Then tag each loan application by providing the loan officer's social security number or broker identification number on the monitoring compliance portion of the 1003. Develop a company scorecard that measures the following:

- loans originated by vintage
- loans originated by product type
- 1-4 payment defaults
- prepayments prior to 12 months
- delinquency and default rate
- loss or severity
- measure by each originator
- develop a company risk profile (loan type, product, score, percentage of purchase to refinance, debt-to-income ratio, LTV, CLTV, etc.)
- highlight your collateral process (who appraises, how they do it, use of AVMs, and desk and field reviews, etc.)
- history of performance, if you have it (e.g., how many loans originated by the company and any quality deviations)

Once completed, begin to tie a percentage of a loan officer's compensation to these three components: the value of the loan, its perceived risk, and their performance and ability to originate quality loans. We do this in two unique ways at Ownit.

What is good for the company is good for the account executive and vice versa.

First, all employees own a piece of the company, hence the name Ownit. We believe that everyone's interests need to be financially aligned, so all employees participate in our Unit Incentive Plan (a stock option plan for Limited Liability Companies). We offer units based upon job responsibility and annual performance. Those units are vested over four years or upon a sale of over 50% of the company. Units are simply valued based upon the value of the company. Company valuation almost always depends on financial and loan performance; therefore, what is good for the company is good for the account executive and vice versa.

Second, we link compensation and bonuses to both volume and performance (currently 75% volume-based and 25% performance-based). Our branches are bonded to this with performance scorecards that measure cost to produce a loan, loan performance, quality exceptions, repurchase requests, and premature loan prepayments. We are beginning to measure this down at the individual originator level, but it has been difficult due to the investor's inability to connect performance. When we purchased Oakmont Mortgage in December of 2003, none of these performance measures were in place. We made a commitment to our account executives not to alter their commission splits for one year, but we laid out a detailed plan for how and why, and what the company was committed to long-term. It worked at the former firm (First Franklin), and it is alive and kicking today at Ownit. And it will work for you.

Next, fasten values to each loan type. At Ownit, we price loans using two primary risk factors: FICO scores and loan-to-value (LTV) ratios. As an individual's FICO and LTV increases, so does the price of their loan (and vice versa). This logic creates risk grades and prices for each FICO/LTV grid (10 score points/5% LTV), and investors provide us with loan values, which we turn into interest rates. A mortgage production company can accomplish this with a couple simple steps. First, break down loans by product type, investor, or instrument. Second, value the subsidy, buy up, or SRP (Servicing Released Premium) paid to you or your company at closing by the lender/investor. Third, create commission splits based on these grids and loan values. Finally, consult legal counsel and make sure your compensation system is consistent with the spirit of RESPA.

You may be asking yourself, "What incentive do I have to do this?" "What is the benefit to me?" At Ownit, we are currently tying up to 50% of a wholesale account executive's compensation to first payment collection.

Perpetual Loan Agreement

A different kind of loan originator needs a different kind of loan application to pull this off. This unique approach grew out of a marketing group charged with developing tactics to target and attract borrowers for retention and cross-sell products and services. As most of you know, rights of privacy and emerging customer solicitation restrictions severely dampen a loan officer's ability to contact a customer before, during, and after the loan has closed. With the mantra, "Earn a customer for life!" this group developed a new kind of application equipped with a disclosure that legally diagramed a perpetual relationship with each applicant. It contractually allowed the originator to "monitor, assist, and help improve" an individual's credit profile. The contractual arrangement specifically listed the originator's obligations to the borrower and authorized periodic contact to improve the person's credit score after the closing, thereby extending the relationship.

Consider the possibilities: Initially, HELOCs, credit cards, equity loans and lines, consumer loans, credit repair, and pledged asset loans; eventually, offers for

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life insurance, homeowner's insurance, auto insurance, title and escrow insurance, mutual funds and investment brokerage accounts, annuities, trusts, wills; all tied together with financial and real estate advice culminating in a financial plan designed to improve a person's financial position. We could integrate this agreement with a soft prepayment penalty that states the penalty would be waived if you choose to return the loan relationship to the originating company. We could include this as a part of our initial loan application or add this to a product offer at closing. The opportunities are limitless!

Research shows that when people need assistance, they will quickly extend a form of trust, called "calculated trust," to someone who exhibits the right behavior.

This agreement has the potential to turn a transaction into a relationship—a closing into an opening—an initial home loan into a plethora of product offerings. Ultimately, it gives us an ability to earn back the title of Trusted Advisor! Let me say a word or two about trust. Most trust builds slowly, taking months and sometimes years of interactions. However, research shows that when people are in a situation in which they need assistance, they will quickly extend a form of trust, called "calculated trust," to someone who exhibits the right behavior. Calculated trust is decided with a simple checklist: "Does the other person share my values, speak my language, and listen to me?" That's why it is so important that we have an arrangement that gives us the opportunity to listen to the customer. Only through this agreement is it possible to demonstrate that you share values and speak the same language, and therefore are given the go ahead to become a trusted advisor.

Creating calculated trust with a customer is very hard work. Most salespeople today are transaction-oriented; they talk too much and are poor listeners. Within 48 hours, three out of every four significant facts have been totally forgotten. What's worse is that a few months after a loan closing, three out of four customers can't remember the name of the loan originator who helped them obtain their financing!

Successful originators understand the Law of Reciprocity. They realize that the more that they give, the more they will get in return. You will be hard pressed

to find a truly successful originator who does not practice this law in their daily disciplines. Human nature is to give back when you have truly received something of value. For this reason, you need to be focused on educating consumers on their various financial options well before you ask for their business. Are you giving them something for them to remember you by? Educational information and collateral materials need to be at the corner stone of your product offering. As an example: If a borrower were to come to you interested in borrowing money on a reverse mortgage (which, incidentally, is another product that is surely gaining traction in the market as the Baby Boomers hit their retirement age), which originator would they want to work with?

1. The originator who has little to no understanding of the product and only provides a business card upon conclusion of the conversation, or
2. The originator who is properly scripted to articulate the pros and cons of the product, provides educational materials (pamphlets, audio CDs, etc.) from LoanToolbox, and can walk through a Total Cost Analysis from the Mortgage Coach to clearly illustrate how the mortgage integrates into their long-term financial goals.

The answer is obvious. Evolving to this mindset is mandatory to your survival.

Test this ability to build trust before your next loan application. Interview your clients to better understand their long-term financial goals and expectations rather than focus just on their short term home loan needs. It is critical that people believe what you say and believe that you care about them. The fact is there are some jobs in which scrupulous honesty isn't expected. So when we learn that a salesperson tried to fool us, we're rarely outraged or shocked. Our lower expectation is a form of cynicism and, in my opinion, could lead to the potential ruination of the mortgage originator.

This continuous erosion of trust has badly tarnished our reputation but hasn't yet delivered the knockout blow; it isn't too late for us to change. In today's world, credibility—the ability to inspire belief or trust—is a rare but vital competence.

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In seeking to establish and enhance calculated trust there are "Six Rules of Credibility in a Financial Relationship":

1. **Under promise, over deliver**. Where trust is truly important, make sure you over deliver on all the patron's expectations. Make a point of collecting and remembering every commitment. Any falsehood is perceived as deception and creates doubt.

2. **No excuses**. Take responsibility for every aspect of the transaction, even the parts you don't control. As we say at our company, Ownit!

3. **Write it down**. Summarize what has been said during your conversations and write everything down. Follow up immediately with relevant questions and close any open loops. Try to ask a few questions that reflect a deeper concern for your customer's well being and demonstrates a broader interest in their financial picture. For example, "Have you thought about using a fifteen year loan as a forced savings account? It will save you thousands of dollars over the life of the loan."

4. **Deliver bad news quickly**. Every undiscovered fact is like a hidden land mine ready to explode or destroy credibility. Most salespeople avoid delivering bad news, which is why there are few successful salespeople. The great ones pay close attention and keep the other side informed and advised as information and events unfold. The concept of "No news is good news" generally isn't the case, and it is important to make sure the customer is the first one to know! The key to delivering bad news is to provide solutions and resolutions at the same time.

5. **Read between the lines**. Clear expectations are critical in creating a clear direction so trust can develop. Understanding the expectations of your customer is called "reading between the lines." Put yourself in the financial shoes of the borrower. This will help you convey ideas in words and examples they readily understand, and show how the product benefits their areas of interest.

6. **It's not what you say, it's what you do that matters**. Conventional wisdom is wrong. Becoming a top salesperson is not the result of producing large volumes of loans for your company. What makes or breaks a salesperson's performance is making sure you follow through. It is the heart of credibility and the hallmark of trust.

Winning: Beating the Odds

The result we all want is to win—to be able to escape the cycle and endure over the long haul. Despite the difficulties of the times, this is possible. The loan production business is growing in leaps and bounds and originators won't go away. The changes required by originators, the backbone of the production business, need not be so massive that only some can live to tell the tale. There will continue to be places for a different kind of originator, one who is credible and follows through; one who understands how to make loans and sell houses in a very cyclical market, yet comprehends the law of purchases, keeps in step with the new housing reality, and is aggressive about defining a rational competitive position for themselves and altering how they do the business.

Gone are the traditional borrowers. They are being replaced with immigrants and other mass non-affluent borrowers who form families and purchase homes in much different ways.

It won't be easy. But anything worthwhile rarely is. Although some originators may be reluctant to deal with the fundamental issues, they really have no choice. The performance gaps are too wide. Gone are the old ways of doing business. Gone are the Cleavers and the Nelsons, along with their cozy little families and their spotless cul-de-sacs. They are being replaced with immigrants and other mass non-affluent borrowers who form families and purchase homes in much different ways.

So the game is on. If an originator decides to play, the odds are stacked against him. The mortgage world will never return to the way it was. The customer for life movement will intensify, and the winners and losers will become clear. Choose now which way to go, and if your decision is to go "all in," then give yourself the best chance to win by integrating the ideas illuminated in this ***Strategic Financing Survival Kit***.

Playing to win means thinking about how you are going to approach becoming a different kind of originator. It involves having a strategy to turn transactions into long-term relationships. It means you understand how you are going to integrate the Life Events Timeline into your day-to-day business. "All in" means committing yourself to becoming a trusted advisor. By doing so, you maximize your odds for survival and success.

— Bill Dallas

About the Author

BILL DALLAS is known as one of the leading visionaries in the mortgage industry. Many have said that Bill possesses "crystal ball clairvoyance" when it comes to predicting mortgage trends. His former company, First Franklin®, pioneered non-prime lending, combining 100% financing with credit scoring. His current company, Ownit Mortgage Solutions™, the fastest growing Alt-A company in the nation, is responsible for bringing many unique products to the market place, including the 45-year RightLoan™. Over the past 25 years, Bill has lead both wholesale and retail origination companies to success with his cutting-edge, "Always one step ahead of the market," approach to business.

PART II:
STRATEGIC FINANCING AS A USP

By **Tim Braheem**

IF YOU ATTENDED BUSINESS PLAN 2006 IN LAS VEGAS, you witnessed the unveiling of The Pyramid of a Complete Loan Officer, a system for building the proper foundation and evolving your mortgage career with a specific action plan. The first three levels of the pyramid—Essential Knowledge, Selling & Presentation Skills, and Marketing—are critical to survival in a market like the one we are currently experiencing. Learn more about the Pyramid of a Complete Loan Officer and how it can help you weather the storm that Bill Dallas describes at **www.businessplan2007.com**.

Bubble, Bubble, Toil and Trouble

Predictions of a fall in the value of residential real estate are in no short supply. History and the supply/demand dynamic tell us that increased inventory in the U.S. real estate market is generally a precursor to softening values. Simply put, as inventory builds and homes sit on the market longer, home prices go down. As the CEO of LoanToolbox, I am acutely aware of how the lending environment is evolving on a national basis through my interaction with our members—10,000 loan originators just like you.

The purpose of the ***Strategic Financing Survival Kit*** is to introduce you to, or reacquaint you with, some of the cutting edge financing strategies that our industry has not needed for many years, and to remind you of the daily disciplines that will help you weather this storm.

Download the ***FREE*** ***Strategic Financing Survival Kit*** at **www.loantoolbox.com/strategicfinance**

Many of today's loan originators were not in the mortgage business the last time a "buyers market" prevailed. Consequently, some originators have never been educated on creative financing strategies. Regardless of market conditions, mortgage professionals must stay on top of developing trends in the housing industry, since our success depends on real estate sales. As in any business, the "first to market" usually wins.

To survive in today's purchase market, you need to assist the real estate inventory holders with their number one objective: TO MOVE INVENTORY!

Developing a USP for Inventory Holders

Most loan originators fail to develop a Unique Selling Proposition (USP) that is attractive to inventory holders—**listing agents, builders, and For Sale By Owner (FSBO) sellers**. Smart originators move quickly when the market changes, identifying what sells and what doesn't. The ability to understand what loan programs appeal to consumers at any given time will not only assist you in developing new purchase business, but in originating refinance loans as well.

To survive in today's purchase market, you need to assist the real estate inventory holders with their number one objective: TO MOVE INVENTORY! From 1996 to 2005, moving inventory often meant placing a sign in the front lawn and waiting for offers. In many markets, it meant multiple bids on the same property, often exceeding the listing price by many thousands of dollars. During this period, the use of traditional marketing strategies such as open houses, brokers opens, magazine ads, and strategic financing declined—why bother when the homes virtually sold themselves?

Today, in a slower market, there is a golden opportunity to partner with inventory holders and use financing to creatively market real estate. Many of today's real estate brokers and builders were not in the business the last time these techniques were needed, and they are struggling to find ways to creatively market property. Therefore, many of them will not be familiar with these strategic financing concepts, allowing you to stand out as an expert.

Additionally, the many new loan products introduced over the past 10 years provide plenty of opportunities for loan originators to create incentives for buyers, even in a slow market.

The Six Rules of Marketing

Let's review a few key rules regarding marketing:

Rule #1: Marketing is about buying brain cells. Your marketing strategies must be unique so they stand out and are remembered.

Rule #2: Effective marketing strategies identify the need (or pain) of the customer, and are geared toward meeting that need or resolving that pain.

Rule #3: People are intrigued by and attracted to "exclusive" information. Marketing strategies that focus on an exclusive angle are infinitely more successful than those that don't.

Rule #4: Everyone wants a good deal, no matter how much money they have.

Rule #5: Scarcity is a key to marketing success. This is why limited time offers have always been used successfully in marketing. We don't want to miss out on a great deal.

Rule #6: Know your prospect! This may sound obvious, but it is often the most overlooked of the six rules. Too many marketing campaigns are simply "shotgun" approaches as opposed to being laser focused on the most likely prospects.

In real estate, sellers frequently overlook many (if not all) of these rules. Here are some facts regarding today's real estate market that will be the key to your success in assisting listing agents, builders, and FSBO's to move their inventory:

Download the FREE Strategic Financing Survival Kit at www.loantoolbox.com/strategicfinance

1. We live an increasingly consumptive society, in which consumer debt is at an all-time high. A recent *Wall Street Journal* report shows that median household income in the United States is up 11% since 1990. In that same period, median household debt rose 83%! The warning signs are in place—cars are being leased, houses are being purchased with little to no money down, and gasoline is over $3 a gallon. Simply put, money is tight for the average American.

2. Property values in most markets are at or near all-time highs. This makes it extremely difficult for the average buyers to qualify for (and more importantly, get comfortable with) the monthly payments for the homes they want.

3. The bubble talk on Wall Street is as hot as it was in the late 1990s. You can't go three days without seeing a magazine article, newspaper headline, or CNBC report that predicts declines in housing prices nationally. If you were a prospective home buyer (much less a first-time buyer) would you be comfortable with these forecasts? The negative vibe coming from the media is making it increasingly difficult for the average home shopper to pull the trigger on a purchase offer. Remember Marketing Rule #4: Everyone wants a great deal!

As a loan originator, you can assist inventory holders with creatively marketing their properties using strategic financing.

As a loan originator, you play a unique role in any purchase transaction. Beyond the obvious duties of getting buyers qualified and educating them on financing options, you can assist inventory holders with creatively marketing their properties using strategic financing. This will make you an ally in the eyes of listing agents, builders, and FSBO seller, and it gives you one very compelling USP. Inventory holders will come to think of you as a terrific referral source. Strategic financing strategies will allow you to create exclusive financing relationships on listed properties, virtually guaranteeing that you are the lender of choice. The following is a real-life example.

My Friend Kirk

Kirk has been one of my best friends for over 20 years. One Sunday in April of 2006, he called me to ask my advice on selling his three bedroom, one bath home in Southern California, which had been on the market 42 days. He had also recently reduced the price from $550,000 to $535,000. Due to a separation from his wife, Kirk was a highly motivated seller who was stressed out about the lack of activity on the listing. I explained to Kirk that he had several strikes against him in today's market:

1. His home had only one bathroom.
2. He had already reduced the price once, and a second reduction could be detrimental to the reputation of the property.
3. Property values were softening in his area.
4. Talk of the potential real estate bubble was probably scaring away potential buyers.
5. His real estate agent had only been in the business six years, and he had never experienced a slow market.

Kirk and I spent some time profiling the prospective buyer of his home. Believe it or not, this was a first-time homebuyer's property even at the lofty price of $535,000! Remember, Marketing Rule #6 says that you must know your prospect, and Rule #2 states that you must identify the needs of that prospect.

We continued to discuss the needs of a typical first-time home buyer. Kirk and I reviewed what was important to him just three years earlier when he bought his first home. For Kirk, it was all about cash. Getting in with as little down as possible and being able to afford the monthly mortgage payment is what nearly all first-time home buyers are concerned about.

So, how was Kirk's property being marketed to address Marketing Rules 6 & 2? It wasn't. The listing agent had created a website for the property highlighting all of the home's features, but he hadn't done anything to address the hot buttons of the person who really mattered—the first-time home buyer. He hadn't even hosted an open house!

Next, I asked Kirk what he would be willing to sell the property for if he had a 30-day offer. "I'd take $525,000 if it were offered today," he replied. I then explained how the $10,000 difference ($535,000–$525,000) could be leveraged much stronger as a marketing tool than as a negotiation concession. He committed to letting me use $7,500 of his sales price to create an incentive that would make his listing stand out from the competition. I then created a marketing plan for his house that uses the principles of strategic financing and covers each of *The Six Rules of Marketing*.

By now, many of you have heard of the temporary buydown program that we have been teaching LoanToolbox members to sell since early 2006. The following strategic financing scenario is based upon the temporary buydown program:

Purchase price of Kirk's home: $535,000
Buyer down payment (10%): ....($53,500)
Loan amount: $481,500
Seller buydown contribution: $7,500

Consider the incentive associated with a seller-paid buydown of 1.5%. It might look something like this:

Seller to pay 1.5% in discount points to buy down buyer's interest rate.

Example:

$481,500 x 1.5% = $7,222.50

Scenario #1 is a $481,500 loan @ 6.5% with no points on a 30-year fixed rate loan. Monthly payment (P&I) = $3,043.40.

Scenario #2 is a $481,500 loan @ 6.125% with 1.5 points on a 30-year fixed rate loan. Monthly payment (P&I) = $2,925.64.

The savings from using Kirk's $7,500 to buy the rate down = $117.55 a month. In addition, getting the payment below the $3000 threshold is also beneficial.

Saving $117 a month is great, but I explained to Kirk that we needed to do something with his money that would speak to the needs of his target customer, the first-time homebuyer. I suggested something more like this:

Exclusive Financing Offer on This Home Only!

2% Interest Rate Reduction for One Full Year
And Monthly Savings of $603!*

You must close by July 1st.
Loan provided by Tim Braheem at First Rate Financial.

*Interest rate 4.50% for first year only, 6.5% for years 2-30, (APR X.XX%). Rates quoted as of 6/06/06; subject to change without notice. Available to buyers with excellent credit. Based on sales price of $535,000, 90% LTV fixed rate mortgage with 2% seller-contributed buydown. Monthly P&I payments for the first year only, $2,349.69; the buydown reduces the monthly payment by $603.71 in the first year of the loan. Offer valid only with seller's preferred lender. Tim Braheem, First Rate Financial, Georgia Residential Mortgage Licensee No. 345-678, 123 Atlanta Boulevard, Atlanta, GA 30333 (770) 456-7890.

Now, that's an offer that will turn heads! Here's a breakdown showing how this incentive works:

$481,500 loan @ 4.5% — monthly payment (P&I) is $2,439.69
$481,500 loan @ 6.5% — monthly payment (P&I) is $3,043.40
The difference is $603.71 per month!
$603.71 x 12 months = $7,244.52 total savings!

We could use Kirk's $7,500 to buy the rate down for the first year and he has $255 left over! Note: Some lenders are beginning to offer programs in which the buydown can be financed and does not have to be paid for by the seller or come out of the originator's rebate (more on this later).

We've provided some excellent buydown calculators in the **Strategic Financing Survival Kit** located at **www.loantoolbox.com/strategicfinance**, along with flyers, scripts, PowerPoint® presentations, conference calls, and other FREE Strategic Financing resources.

Download the FREE Strategic Financing Survival Kit at www.loantoolbox.com/strategicfinance

If you are a first-time home buyer with limited cash and market timing concerns, which of these two offers would excite you more? Let's review the marketing rules again to see if we have successfully applied strategic financing:

Rule #1: Marketing is about buying brain cells. Your marketing strategies must be unique so they stand out and are remembered. **Check! Our marketing strategy is very unique**.

Rule #2: Effective marketing strategies identify the need (or pain) of the customer, and are geared toward meeting that need or resolving that pain. ***Check! The pain is the monthly payment, and we have created relief in the form of $600 monthly savings for a full year***.

Rule #3: People are intrigued by and attracted to "exclusive" information. Marketing strategies that focus on an exclusive angle are infinitely more successful than those that don't. ***Check! The incentive applies exclusively to this property and this loan originator***.

Rule #4: Everyone wants a good deal, no matter how much money they have. ***Check! This may not be the best time to buy, but this is one heck of a deal!***

Rule #5: Scarcity is a key to marketing success. This is why "limited time offers" have always been used successfully in marketing. We don't want to miss out on a great deal. ***Check! Act now or the offer will be gone***.

Rule #6: Know your prospect! This may sound obvious, but it is often the most overlooked of the six rules. Too many marketing campaigns are simply "shotgun" approaches as opposed to being laser focused on the most likely prospects. ***Check! The incentive is designed to appeal to first-time homebuyers with cash concerns***.

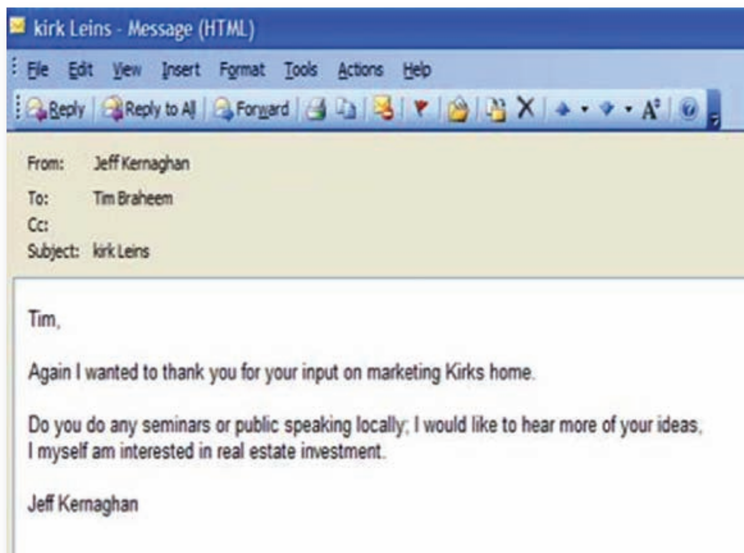
Explaining Strategic Financing to Inventory Holders

When I finished laying out the program for Kirk, his head was spinning. He said, "I think I get it, but could you do me a favor and explain this to my real estate agent?"

The following Monday I received a call from Jeff Kernaghan, Kirk's listing agent. I prepared myself for a call with someone who might be very reluctant to receive marketing advice from a loan originator. Fortunately, Jeff was very approachable and eager to hear my suggestions. I took quick control of the conversation and explained in detail *The Six Rules of Marketing* and my reasons for suggesting strategic financing. After my brief 10-minute presentation, Jeff asked, "Can I use you to do all of my loans in the future?"

I thanked him for the tremendous compliment but explained that I recently retired from doing loans and am now a teacher of loan originators. He replied, "Well, can I at least call you from time to time for marketing suggestions?"

A week later, Jeff was kind enough to send me this e-mail:


kirk Leins - Message (HTML)

From: Jeff Kernaghan
To: Tim Braheem
Cc:
Subject: kirk Leins

Tim,

Again I wanted to thank you for your input on marketing Kirks home.

Do you do any seminars or public speaking locally; I would like to hear more of your ideas. I myself am interested in real estate investment.

Jeff Kernaghan

Enough said. The same strategies can be applied to builders and FSBO sellers. The **Strategic Financing Survival Kit** provides you the exact scripts to explain the program and counter potential objections from all three of these targets. You can download the free Kit at **www.loantoolbox.com/strategicfinance**.

A Word about Buyers

I would be remiss not to mention that strategic financing is also appropriately used when consulting with home buyers as a way to help them achieve their needs. However, this strategy is much more difficult to implement with buyers if you wait until *after* a contract has been signed! You must educate the buyers' agents on the importance of speaking to their clients *before* they write an offer.

The reason that strategic financing is more challenging "post-contract" is that most real estate agents resist renegotiating a signed contract for fear of rocking the boat. Most agents prefer the path of least resistance! For this reason, I do not suggest teaching these principles to buyers who are already in contract as it could damage your reputation with the buyers' agents.

If you explain these principles to a buyer *before* an offer is made, you should also educate the buyers' real estate agents on how you want the offer written on behalf of the client. Again, all of the scripts are included in the **Strategic Financing Survival Kit** found at **www.loantoolbox.com/strategicfinance**.

Other Forms of Strategic Financing

There are many different ways to use financing as a marketing tool to assist sellers in moving inventory. I will outline several other ideas for you, but you should also put on your creative thinking cap to develop your own strategies for your specific market. As always, LoanToolbox members are encouraged to share their ideas with fellow LTB members via the message boards, and to leverage the amazing networking opportunities that exist in our community.

Ownit Mortgage Solutions is in the process of developing a menu of products based upon these strategic financing strategies. You can bet that other lenders will soon be entering the market place with unique and creative products as well.

Intermediate ARM Buydowns

I told you my friend Kirk's story and explained how he and his listing agent used the temporary buydown to market his property. The example we used involved a 30-year fixed rate mortgage. Keep in mind that buydowns will often work with other types of loans, such as intermediate ARMs. In the early 1990s, when interest rates were approaching 10% on 30-year fixed jumbo loans, I used the buydown strategy to generate many refinance opportunities for people who had escalating ARMs tied to the 1-year Treasury Bill.

Here's one example of how to buy down an intermediate ARM:

> 5/1 ARM at a prevailing interest rate of 5.5% at par
> Current loan amount of $375,000
> Seller concession of $3,750 (1%) buys down the rate 1% for 1 year
> First year interest rate of 4.5% with a payment of $1,949.45
> Years two through five at an interest rate of 5.5% and a
> payment of $2,170.25
> Monthly savings = $220.80
> First Year Savings = $2,649.65 ($220.80 x 12)

In the past, lenders were not open to buydowns on 3/1 ARMs or straight adjustable rate mortgages. Be sure to check with your lending sources to determine what their underwriting guidelines allow. Do yourself a favor and don't take an account executive's word that they don't provide the loan program. Many lenders are still unfamiliar with this type of financing and are surprised when they find out they can do it.

You should also inquire whether your lenders can provide a buydown that drops the rate 2% for one year (the example mentioned in the story about Kirk). In all cases, make sure that you are clear on what the qualifying rate is for such programs. Many lenders require the borrower to qualify at the highest rate (depending on the LTV), which can affect your ability to provide such programs to your borrowers.

We've provided some excellent buydown calculators in the **Strategic Financing Survival Kit** located at **www.loantoolbox.com/strategicfinance**, along with flyers, scripts, PowerPoint® presentations, conference calls, and other FREE Strategic Financing resources.

Long-Term Loans

Recently, a few lenders have introduced longer maturity loans that allow the consumer to pay the loan off over 40 or even 50 years. Talk about leasing long term! Long-maturity loans provide a marketing opportunity that can assist the inventory holder in moving hard-to-sell property. Since the payments on this type of loan are almost exclusively allocated to interest, I suggest combining it with a seller contribution to closing costs, generating both payment relief and minimal cash requirements at closing. Here's an example:

Exclusive Financing Offer on this Home Only!

Payments as low as $939 per month*

No Points or Closing Costs!!!

You must close by July 1st.

Financing Provided By Tim Braheem at First Rate Financial.

* APR X.XX%. Rates quoted as of 6/06/06 and are subject to change without notice. Sales price of $224,900, fixed rate for 50 years with monthly P&I payments of $939, property taxes $135; total monthly payment $1,074. Above example assumes buyer with excellent credit. Offer valid only with seller's preferred lender. Tim Braheem, First Rate Financial, Georgia Residential Mortgage Licensee No. 345-678, 123 Atlanta Boulevard, Atlanta, GA 30333 (770) 456-7890.

Government Loans

Government loans are another terrific opportunity to use strategic financing. It is not uncommon for the seller to pay up to two discount points on FHA loans on behalf of the buyer. The loan originator will typically charge the buyer a one point origination fee, and will often earn lender-paid broker fees on the loan plus up to two additional points in service release premiums. The bottom line is that government loans can be profitable for loan originators. Here is a strategy that can make FHA loans an outstanding vehicle for strategic financing:

The Adjustable Rate Mortgage Alternative!
Exclusive Financing Offer on This Home Only!

FHA Financing with Interest Rate Cap of 6.5%

Start Rate Only 4.5% (APR X.XX%)!!!

You must close by July 1st.
Financing provided by Tim Braheem of First Rate Financial.

* Start rate of 4.50% for first year only (APR X.XX%). Interest rate can never exceed 6.5%. Rates quoted as of 6/06/06; rates subject to change without notice. Available to buyers with excellent credit. Offer valid only with seller's preferred lender. Tim Braheem, First Rate Financial, Georgia Residential Mortgage Licensee No. 345-678, 123 Atlanta Boulevard, Atlanta, GA 30333 (770) 456-7890.

The example above is a 2/1 buydown on an FHA 30-year fixed loan. The 2/1 buydown works like a standard buydown, except that it has two steps to it. In this example, the rate is fixed for the first year at 4.5%, fixed for the second year at 5.5%, and then it "caps out" at 6.5% for the remaining 28 years. A 2/1 buydown typically costs about 2.5% of the loan amount to achieve a similar payment reduction.

To calculate the buydown costs, take the difference in payments for 12 months between the 30-year fixed rate loan at 6.5% and the payments at 4.5% (the first year). Then calculate the difference between the payments based on 5.5% and 6.5% rates over the next 12 months (year two). When you add the difference in payments over those two years, you come up with the cost associated with buying the loan down. For example:

$150,000 @ 4.5% = $760.02 (Year 1)
$150,000 @ 5.5% = $851.68 (Year 2)
$150,000 @ 6.5% = $948.10 (Years 3-30)
Year 3 – Year 1 = $188.08/mo x 12 = $2,256.96
Year 3 – Year 2 = $96.42/mo x 12 = $1,157.04
Total difference = $3,414.00 (seller assistance to buy down loan)

We've provided some excellent buydown calculators in the **Strategic Financing Survival Kit** located at **www.loantoolbox.com/strategicfinance**, along with flyers, scripts, PowerPoint® presentations, conference calls, and other FREE Strategic Financing resources.

Important note: The seller is NOT the only person who can assist in buying down the loan on any of these programs. As an originator, I have contributed to the buydown in the past with a portion of my commissions. On an FHA loan, this is easier to do because of the commissions earned on the back end. In the past, I have even arranged partnerships with real estate agents in which each of us allocated 0.5% of our commissions which, when combined with a seller contribution of 1.5%, achieves the 2.5% needed for the buydown. A total team effort! Don't underestimate how much real estate agents will appreciate your willingness to roll up your sleeves to make a deal happen. And don't worry about lost revenue because you will make it up in volume!

Participating in listing presentations with real estate agents to help them convince sellers to list their homes can position you as a team player.

Buydowns are also a very powerful tool for real estate agents to use on listing presentation appointments. I have participated in several listing presentations with real estate agents to help them convince sellers to list their homes, and this strategy can cement your relationship with the agent and position you as a team player.

Important footnote: Many loan originators have been looking for something to separate them from their competition and impress their referral partners. Cindy Ertman is one of the nation's top loan originators out of Manhattan Beach, California. She recently took a real estate agent she had been pursuing for some time to lunch, and made strategic financing a central part of the conversation. She impressed him so much with her knowledge and creativity that he has started sending her business that doesn't even fit the strategic financing criteria.

FSBOs

The "For Sale By Owner" (FSBO) market is another area in which strategic financing can be very effective. In a FSBO situation, the inventory holder is typically a home seller with little to no experience marketing real estate. Sharing these principles can make a significant impact on FSBO sellers and help you earn their trust. There is an entire FSBO campaign available in LoanToolbox, including scripts, marketing materials, contracts, and more.

Most FSBO sellers advertise through traditional means, such as placing an ad in the real estate section of their local newspapers and putting a sign up in the front yard. Some even go so far as to create flyers. The next time you make a presentation to a FSBO seller, try to integrate some of the strategic financing concepts we've discussed into your presentation to establish yourself as an expert.

A word of warning regarding FSBOs: Many loan originators fail to make the substantial long-term commitment that is required to achieve success. Being a FSBO marketing expert has proven successful for those who have developed a detailed plan to prospect for these relationships. Using strategic financing concepts will serve as a compelling USP during your presentation appointments. But be mindful of the substantial time commitment that is required to excel in this market. Those who succeed typically do so with the aid of an assistant who can handle the marketing needs.

Closing Costs

Another more traditional approach to strategic financing involves closing costs. It's not uncommon for a buyer to negotiate a seller concession for non-recurring closing costs, especially on a government loan. What *is* uncommon is for the listing agent, builder, or FSBO seller to use this strategy effectively in an effort to move inventory. Try this:

NO POINTS, NO FEES!
Fixed Rate Mortgage at 5.75% APR!!!*

Exclusive Financing Offer on this Home Only!

You Must Close by July 1st.

Financing Provided By Tim Braheem at First Rate Financial.

* APR applicable to first year only; APR subject to increase after consummation. Rates quoted as of 6/06/06 and are subject to change without notice. Available to buyers with excellent credit. Offer valid only with seller's preferred lender. Tim Braheem, First Rate Financial, Georgia Residential Mortgage Licensee No. 345-678, 123 Atlanta Boulevard, Atlanta, GA 30333 (770) 456-7890.

This is a combination of a seller concession and a creative loan program! In this example, I would instruct the listing agent, builder, or FSBO seller to contribute $3,500 in non-recurring closing costs on behalf of the buyer. This contribution is shown in the sales contract. I increase the interest rate by 0.25% to generate one point in lender-paid broker fees to cover a one year buydown (hence the interest rate of 5.75% for the first year and 6.75% for the remaining 29 years). The start rate is a great deal that should attract attention from potential buyers.

Contributions from commissions and seller concessions can be applied to either the closing costs or the buydown. It's not vital that you use the buydown program but, as you can see, it provides for a lot of flexibility. For example, you could take the $3,500 and allocate it to a discount point on a 7/1 ARM,

advertising an interest rate of 6% for seven years. Remember that in an increasing interest rate market, buyers are looking for stability and a rate that they can count on. Even if the rate adjusts once or twice, it's comforting for the borrower to know exactly what he can expect.

The Double Whammy!

Some lenders are starting to catch on to these concepts and have included further creativity into their product options. For example, American Brokers Conduit offers the ability to finance the buydown into the loan amount! If you combine this with a seller contribution for closing costs, you can now offer both strategies in one! Here's how it would look on a 30-year fixed with interest only payments for ten years:

Special Financing Offer on this Home Only!

FIXED RATE MORTGAGE with Start Rate 4.875% (X.XX% APR)*

No Points or Closing Costs!

You must close by July 1st.
Financing offered exclusively by Tim Braheem at First Rate Financial.

*Start rate of 4.875% for first year only, 5.875% in year 2, 6.875% starting in year 3 (APR X.XX%). Interest rate can never exceed 6.875%. Rates quoted as of 6/06/06; rates subject to change without notice. Available to buyers with excellent credit. Offer valid only with seller's preferred lender. Tim Braheem, First Rate Financial, Georgia Residential Mortgage Licensee No. 345-678, 123 Atlanta Boulevard, Atlanta, GA 30333 (770) 456-7890.

Here's an example of how this works:

Purchase Price: $200,000
Buyer down payment: $20,000

Seller Concession to cover all closing costs $6,000
(Includes one discount point to loan originator.)
Cost of buydown at 3%: $6,000
Loan amount before buydown: $180,000
Loan amount including financed buydown: $186,000
(*Note:* This does not affect LTV under this program as it is still treated as 90%.)

Note that this is a 2/1 buydown program that would reflect an interest rate of 5.875% in year two and 6.875% in years 3-30.

The Builder Approach

The single largest holders of home inventory are builders. When sales slow, they have more to lose than anyone else! "Standing inventory" is an important term in the life of a builder, and there is nothing more important to a builder's financial well-being than keeping standing inventory low. For this reason, builders may be the most receptive to strategic financing.

A word of caution: Builders often have their own financing company or affiliations with lenders. Don't disclose too much information about the various programs that we have discussed, because the builder could take the information to its preferred lender, cutting you out of the financing picture. The **Strategic Financing Survival Kit** at **www.loantoolbox.com/strategicfinance** contains scripts to help you walk this fine line.

You may be able to avoid working directly with the builder by focusing on the builder's sales agent. Many new home developments are run by salespeople with the flexibility to direct financing business. I personally originated dozens of loans in the mid 1990s in Lake Sherwood, California, on multi-million dollar homes developed by Murdoch Development, which owned a lending company. In the end, the builder's sales agent is paid on commission. Helping agent sell property by providing literature and marketing materials is a great way to win their trust—and their future business.

Here is one strategy for approaching a builder with standing inventory:

Ask the builder whether he has any inventory that has been on the market for more than 45 days. If the answer is yes, which it generally will be, explain that you have access to special financing that can help market this standing inventory in a unique way. Ask if there is any flexibility in the sales prices. If there is, use strategic financing strategies to create attractive interest rates and fee structures. Then create a flyer highlighting these special financing programs and place them in the sales office. Here is an example:

The example above is a 7/1 ARM bought down 1% for the first year and adjusting to 6% for the following 6 years, which is accomplished using a seller discount point contribution of 1%. But don't stop there! Tell the builder you would also like to record a voice broadcast on his behalf to highlight the exclusive financing available on these homes, and that you'll send it out to potential homebuyers who have visited the development in the last six months. A sample script is available in the ***Strategic Financing Survival Kit*** at **www.loantoolbox.com/strategicfinance**.

Note: All of the strategic financing loan options that have been discussed are applicable to builders.

The Dreaded "Contingent Upon the Sale of…" Clause

In a seller's market, home sale contingencies are rare, and buyers are generally not concerned about having to sell their current home prior to placing an offer on another. However, in a buyers' market, where all property becomes more difficult to sell, sales contingencies start to rear their ugly heads.

For example, let's say Buyer A wants to buy Seller B's house for $300K. Buyer A has a home worth $200K, which has been on the market 39 days. Buyer A has $80K in home equity and needs this equity for the down payment on Seller B's home. Buyer A makes a purchase offer contingent upon the sale of his own home, but Seller B is unwilling to wait and see if Buyer A's home will sell, so the deal falls apart. Needless to say, the real estate agents are not happy and neither is Buyer A.

The originator with a backup plan quickly becomes a hero in the eyes of many when the opportunity to save a deal presents itself.

Strategic financing requires contingency plans (no pun intended) for this type of activity. The originator with a backup plan quickly becomes a hero in the eyes of many when the opportunity to save a deal presents itself. I found myself frequently faced with home sale contingencies in the mid 1990s, and decided to find alternatives to help buyers and inventory holders. There are several options that can help in this situation:

Bridge/Cross-Collateral Loans

Bridge loans are notorious for being challenging for everyone involved. I personally have never done a bridge loan because I have always been able to find an alternative that was easier and less expensive for my client. However, bridge loans are certainly an option and should be considered if you need them.

Cross-collateral loans are strong alternatives to bridge financing. The last "cross" loan I funded was in 2003, and most were done through Washington

Mutual using the 5/1 interest-only loan program. WAMU still offers this program with many of its ARM products. Here is how they work:

Take the value of the buyer's home that must be sold (e.g., $300K) and add it to the purchase price of the new home (e.g., $450K), for a combined value of $750K. Let's assume the buyer's current mortgage balance is $100,000, and that the new purchase loan will allow for 80% LTV with full documentation, or $600K. This is what the new lender will allow the buyer to borrow on a loan that is cross-collateralized on both homes until the buyer's current home is sold. (Cross-collateral refers to the fact that multiple properties are used to secure a single loan.)

Remember, the buyer owes $100K on his current property, and this loan will need to be paid off with proceeds from the cross-collateral loan, so the buyer can effectively borrow $500,000 "net" on the new home. Here's how the financing works:

- A new loan of $600K is secured by liens on both homes.
- The $100K mortgage on the buyer's home is paid off using funds from the $600K loan.

End result: The borrower is able to buy the new home *prior* to selling his current home. Everybody wins!

Important note: It is prudent to suggest this type of financing only to borrowers who can afford to carry the equivalent of two mortgage payments for a brief period of time, and only if you are confident that the buyer's existing home can be sold quickly. This scenario is especially attractive using an interest-only loan, because the payments during the period when the buyer owns both homes will be minimized.

Here is a list of lenders currently providing Bridge and Cross-collateral financing:

- Commercial Capital (Formally Hawthorne Savings)

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- Exeter Holdings
- Rapid Rehab
- New Century
- Normandy
- Accubank
- Indy Mac
- Meridian Group
- Eastern Savings
- Equity Funding

Second Trust Deeds

If you are lucky enough to meet the buyer *before* she puts her house on the market, an institutional second mortgage makes sense. Note: No institutional lender will lend money on property listed for sale because the loan will be paid off too quickly to make the loan worthwhile. The buyer must always close on the second mortgage *before* his home is listed for sale. The second mortgage will free up home equity for use as a down payment on the new purchase, and allow the buyers to make an offer without a home sale contingency. My personal preference in this scenario is for a HELOC with a teaser rate.

Private Money Seconds

Private money is a very attractive USP if you can align yourself with someone with the resources and appetite for these types of transactions. The only difference from the institutional second trust loan described above is that private money lenders will often lend on listed property and can usually fund a loan quickly if the structure is attractive.

Private money lenders are all about equity (most have a maximum CLTV of 70%). Be aware that the borrower will usually need to pay points (sometimes several) since the private money lender will not make money servicing the debt long term.

If you are fortunate enough to have your own capital to lend, you can get really creative. I started doing this myself in the late 1990s. Note: Mortgage originators should be aware that special licenses (different from loan originator or mortgage broker licenses) may be required to lend funds to borrowers and/or that conflict of interest rules may either: (1) prohibit the originator from acting as a lender in the same transaction in which he is a broker, or (2) require advance written disclosure of the two roles of the originator. That said, let me share an example:

> I had a client who wanted to buy a home in Santa Barbara, California, for $3 million. A minimum 25% down payment was required ($750,000). She currently owned a $3 million home in Los Angeles that she was remodeling in preparation for sale. The balance on her Los Angeles mortgage was $1 million. To make matters worse, she needed to go stated income!
>
> I made a second trust loan on her Los Angeles property for $750,000 for 90 days, with no fees and two points. I also placed a loan for $2,250,000 on the Santa Barbara home and made 1.5% on the front end, and one point in lender-paid fees on the back end. My broker check was $56,250!
>
> Thanks to strategic financing, I was able to complete a deal that no one else could touch. The real estate agent made even more than I did! You can bet that I received plenty of business from this agent for a long time to come.

This was a rather extreme example. In the past, I have loaned as little as $10,000 to clients (always secured by their homes) to make a deal work. If you procure private money or lend your own, make sure that ALL parties involved in the transaction understand that you are operating out of the norm and are providing a service that extends beyond that of a typical originator.

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Cash-Out Refinances

Refinancing is not a revolutionary strategy. If a home is NOT listed for sale, a cash-out refinance loan to cover the down payment on the buyer's new home is a very good way to strategically finance the purchase. This allows the buyer to make an offer on a new house without a contingency for the sale of his existing home.

It's important to understand that when the purpose of the cash-out refinance is to provide down payment funds, the interest rate is unimportant *unless* the buyer plans to keep his current residence and rent it out. Avoid excessive upfront costs because the loan is going to be paid off quickly and that money will never be recovered. It is critical that you explain this to your buyer! The ideal scenario is a "no-points/no-fees" loan. This often means a 30-year fixed rate loan because most other programs don't offer enough lender-paid broker fees to cover the buydown. There is quite a bit of information on these types of loans, including scripts on how to sell them, available in LoanToolbox.

Most consumers mistakenly think an ARM is the appropriate loan for this short term problem. Other times, it's the loan originator who poorly advises his customers to use an ARM with a low rate. If you are one of those originators, consider the following scenarios:

> **Option 1**: An ARM loan @ 4.5% on $250K with $3,000 in closing costs generates a monthly payment of $1,266.71.
>
> **Option 2**: A 30-year fixed rate loan @ 7% on $250K with no closing costs generates a monthly payment of $1,663.25.

Option 1 might save the client might $396.54 per month, but there is an additional up-front cost of $3,000 (the closing costs for the ARM). It would take more than 7.5 months to break even with the savings from the ARM. Therefore, if the buyer's current home will sell in 7 months or less, the buyer is better off refinancing with the 30-year fixed rate loan with no closing costs, even at a much higher rate.

Here's a $250 bonus: The no-cost loan included 2.5% in lender-paid broker fees, netting the loan originator $3,250. The ARM included only one point in lender-paid broker fees (to avoid a pre-payment penalty), netting the originator $3,000. It pays to do the math! Again, I would use a Mortgage Coach Total Cost Analysis spreadsheet to explain this to the customer.

Open Houses

When property sales are slow and there is more inventory on the market, real estate agents must get more aggressive in showcasing their listings. Many hold open houses on the weekends to attract potential buyers to the home. I can think of no better way to secure financing opportunities than to partner with inventory holders and co-operatively marketing the property using strategic financing concepts. I suggest using "Financial Listing Flyers" to market the property in local newspapers and through other traditional means. I also suggest that you sit with the listing agent at open houses so you can explain these exclusive financing strategies to would-be buyers. You'll find examples of these flyers in the ***Strategic Financing Survival Kit*** at **www.loantoolbox.com/strategicfinance**.

You should also use strategic financing concepts in conjunction with broker open houses. For those unfamiliar with the term, a broker open is an open house at which the listing agent showcases the listing for other real estate agents to preview. These typically occur on weekdays, and it's not uncommon for as many as 100 real estate agents to come through a broker open. This provides an excellent opportunity to discuss strategic financing with potential referral partners.

No Payments, Baby!

Several lenders have started promoting no-payment programs. I have not personally experienced them at the time of this writing, so unlike other strategic financing scenarios, I am speaking conceptually about these loans. "No payment" simply means a short period when no payments are due on the loan. In actuality, payments are deferred for a period of time. This marketing strategy works very effectively in the consumer electronics industry and looks something like this:

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50" Wide Screen TV
No Payments for Twelve Months!

Why not try this with mortgage loans? In the past it has been impossible to provide this type of financing because it requires the lender to provide payment relief on the amortization schedule. However, I have been told that Security Banc and Alliance Bancorp are offering no payments for the first three to six months on option ARM loans. If this trend catches on, it could be quite a hot sell. I envision something like this for an ad:

Special Financing Offer on This Property ONLY!
No Payments for 90 Days!!!

If you have a difficult time finding a lender that offers these programs, you can still structure no payment financing by convincing the seller to make the first three payments on the buyer's new mortgage. For example, assume that the buyer's P&I payment will be $2,300 a month on a 90% LTV loan. Three months of payments is the equivalent of a seller contribution of $6,900 in closing costs or a $6,900 reduction in the sales price. Ask yourself this question: As a buyer, would you be more attracted to an advertisement that stated "$6,900 credit to buyer at closing" or "No payments for the first three months?"

Let me repeat: Our job is to help sellers move property. If we do, we win and will have more business than we know what to do with. Tough markets separate the pros from the amateurs! In any industry, leaders make their fortunes and develop traction in the marketplace when times are tough; and when things turn around, they are even stronger than before. This is what strategic financing is all about!

Other Marketing Ideas for Sellers

I mentioned the need for clarity about our prospects and those we are trying to motivate. I touched on the importance of marketing to other real estate agents at broker's opens. Don't forget that most buyers are guided by real estate agents who have a vested interest in closing sales contracts. These agents can have a significant influence on their clients' financing decisions. Part of the inventory holder's job is to get *other* agents excited about helping to sell the home!

A strategy that has proven successful to motivate a buyer's agent to show property is a "buyer's agent bonus." Here is an example of something that can be posted on the MLS that goes beyond the scope of strategic financing:

Special Limited Time Offer on This Property Only!
$2,500 Buyer's Agent Bonus for Sale Closed by July 1!

A seller can create an incentive for the buyer's agent to show his property by paying the agent a bonus. In fact, you will occasionally see 7% commission arrangements in the MLS, which are aiming at the same goal—to get the property shown more often. Agent bonuses have not been needed for several years due to the blazing hot real estate market in which 5% commission was common. On a $250,000 sale, the seller might be happy to allocate an additional $2,500 sales commission to make his property stand out, especially if buyer interest seems low or showings by agents are infrequent.

Remember, most home owners have considerable equity in their homes if they have owned them for 24 months or longer. In most cases, these sellers would negotiate the sales price down to achieve a sale, so why not offer the amount of an expected price concession to someone with influence over the buyer's decisions? Keep in mind that these agents will typically have relationships with numerous buyers at the same time, increasing your exposure.

In June of 2006, my partner Steve used this strategy to sell his home in Pacific Palisades, California. The property had been listed for sale with no activity for over 40 days. After speaking with his agent about using the buydown strategies, he decided to take a different approach and offered a 7% commission on the sale of the property (the extra one percent went to the buyer's agent). He started receiving inquiries from agents who wanted to show the property the very next day and, after three days, he was in contract!

Note: This strategy does not directly benefit you as the originator because the seller concession (the sales commission bonus) does not contribute to the financing or make the financing more attractive. It is also less effective for the seller than the previously described financing strategies, because the buyer's ability to further negotiate price or financing terms will be diminished if the seller's

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dollars are paid to the real estate agent. Moreover, if the buyer realizes his real estate agent is obtaining a commission bonus, the buyer may want additional concessions from the seller, which could complicate the sale! The principal benefit of this strategy is to get the property shown more often in a slow market, in order to produce a sales contract (indirectly benefiting you as the originator).

Finding Refinances Where No One Else Can

I have been telling LoanToolbox members for many years that there are **ALWAYS** refinance opportunities—you just need to know where to find them. The problem is that many of us (myself included) started in this business when the opportunities were obvious. Market conditions didn't require us to consider strategic financing, and there were no classes to learn from other than the "school of hard knocks."

I began doing loans in 1992 and, for the first 18 months, things were pretty darn good. There were few purchases but plenty of refinances. The market dried up when interest rates increased from 7% on 30-year fixed rate loans in 1992 to 9% in 1994. The purchase market didn't follow the improving economy, and there simply was very little business available. I was forced to find ways to create business, which is where many of these strategic financing scenarios developed. In retrospect, I was fortunate to experience these difficult times because it forced me to become very resourceful.

Having been in the business for 18 months, I was still trying to forge relationships with inventory holders. Refinances were my only hope. But how do you sell someone on refinancing into a 30-year fixed rate loan at 9%? Once again, you start by understanding your client and where that client has a need or pain.

Today's market doesn't differ much from the market of 1994. Back then, the Federal Reserve was increasing interest rates and the public was wondering when it would end. In 1992 and 1993, many mortgage loans were 1-year Treasury ARMs, similar to the 1-month LIBOR ARMs that are now popular. The 2/1 buydown relieved the pain that many homeowners had at that time.

I would market to consumers with 1-year ARMs that had adjusted at least once. For example, those with a minimum interest rate of 7% on their way to 9% and with a life cap of 11%. I offered loans fixed for the first year at 7%, fixed for the second year at 8%, and fixed for years 3-30 at 9%. This was not exactly a slam dunk sell! However, it solved the problem for borrowers who felt that rates could climb to their life cap of 11%. I averaged five to seven loans a month in 1994, which kept me in the business. In 1995, rates started to ease, and this sell became easier once I was able to offer 6, 7 and 8 as the tiers.

Today, industry experts estimate that at least **half a trillion dollars** worth of loans with reduced initial payment terms are scheduled to reset in the next few years, and that payments could shoot up by 100% or more. This is the perfect opportunity to target those customers and present them with alternative financing options such as the 2-1 buydown.

Calculating the 2-1 Buydown

Many loan officers find this loan program very confusing. They don't understand how to calculate the formula, or how it works, and cannot explain it to the consumer. I will describe the various calculations involved in a 2-1 buydown loan. Then, word for word, I will offer you the exact script I use in my explanation to a consumer.

Essentially, you're taking the rebate money that is paid to you as the loan officer and using it to buy down the interest rate by 2% in year 1, and 1% in year 2 of a 30-year loan. By charging the borrower 1 to 1.5 points, which are incorporated into the loan amount during a refinance, you will make the 2-1 buydown rewarding for everyone involved.

Let's calculate the 2-1 buydown, step by step, using a $250,000 loan as our example. Let's also say that 7% on a 30-year fixed rate mortgage currently yields a 2.5% rebate. (Having done this calculation numerous times myself, I can tell you that, when figuring a 2-1 buydown, you want to aim for approximately a 2.5 to 2.625 rebate.)

Step One: Look at your rate sheet and select the interest rate on a 30-year fixed rate mortgage that is currently associated with an approximate rebate of 2.5%. Let's say that rate is currently 7% and call that our cap rate. When I give you the script, you will understand why I use this term, which is the rate equivalent to the life cap on an Adjustable Rate Mortgage.

Step Two: Multiply the $250,000 loan amount by 2.5%, which will yield a commission of $6,250. This represents the money that you have to play with as the loan officer, to buy that interest rate down for the consumer and create a very attractive loan program.

Step Three: Take the payment at 7%–the rate that yields the 2.5% rebate. At $250,000, a 30-year amortized payment at 7% would be $1,663.26. Drop the rate by 2% from the capped rate, which represents the "2" in the phrase "2-1 buydown."

Step Four: Now, having dropped the rate from 7% to 5%, figure out the payment for 1 year on a fully-amortized note on that same $250,000. The amount should equal a monthly payment of $1,342.05. At 5%, this represents a $321.21 monthly savings versus the payment of $1,663.26 at 7%.

Step Five: Multiply the $321.21 savings by 12 months because you have just bought the rate down 2% in year 1 on the 2-1 buydown. Essentially, this means that, as the loan originator, if you want to buy that rate down 2% for the client, you need to pay the lender the difference times 12. This total amount equals $3,854.52 and will be paid to the lender at the time of closing. Subtract this amount from the original $6,250 rebate money calculated in Step Two, and you should be left with $2,395.48.

To calculate the second year of the 2-1 buydown, simply repeat Steps Three through Five, dropping 1% from the cap rate for the $250,000 loan amount. This yields a monthly payment of $1,498.88. The difference between this 2nd year payment of $1,498.88 and the 3rd year payment at 7% of $1,663.26 is $164.38 a month. Once again, because it's for a second full year, you need to multiply that savings of $164.38 by 12 months.

This generates an additional savings to the consumer of $1,972.56 in year 2 of the loan. You need to pay the lender that $1,972.56 out of the money remaining from Step Five. The total amount of money left over is $422.92, and this is the rebate you will receive as the loan officer. In addition, I usually charge the borrower 1 to 1.5 points, which is incorporated into the loan amount during a refinance. This will make the 2-1 buydown rewarding for you and your clients.

Let's examine how you would explain the benefits of this loan program to a consumer, and create comfort if they're fearful of their current Adjustable Rate Mortgage.

> *"Mr. Jones, there is currently a very attractive loan program available which you probably haven't heard of. In fact, even many loan officers don't know that this loan program exists. The loan is called a 2-1 buydown, and though it's a fixed rate mortgage, it acts, in certain ways, like an Adjustable Rate Mortgage."*

> *"Your current Adjustable Rate Mortgage has an interest rate of 6.5%, and I know that you have become very uncomfortable with the interest rate increases over the last 12 to18 months. You've also become very concerned with the fact that you have a 10.95% life cap, meaning that your interest rate could feasibly climb as high as that if interest rates continue to rise. I have a solution for you that I think is quite attractive."*

> *"This tiered, fixed rate program is fixed for the 1st year at 5%; fixed for the 2nd year at 6%; and fixed for the remaining 28 years of the 30-year loan at 7%. It caps out at 7%, almost a full 4% lower than the life cap that you have on this adjustable right now."*

> *"In fact, Mr. Jones, over the course of the first 2 years, you're going to save yourself a substantial amount of money because cash flow will be improved immediately in months 1 through 12, with an interest rate of 5%. You'll save money in year 2 as well. The amount of money you will save can't be determined because, as this adjustable that you currently have continues to increase, the savings will be that much more substantial."*

> *"I don't want you to think of this as anything other than a tiered fixed rate product, Mr. Jones. There is no margin, there is no index, but there most certainly is a protective cap that minimizes the substantial risk associated with your Adjustable Rate Mortgage."*

In 1999, the sell was slightly different when rates increased to 8.5% following the refinance boom of 1997 and 1998. While many were dropping out of the business because they could not survive, I thrived on selling not only the 2/1 buydown, but also 3/1 and 5/1 ARMs. Use the scripts contained within the **Strategic Financing Survival Kit** to explain the cyclical nature of rates and to sell the programs we've explored. Once again, the kit is available for free at **www.loantoolbox.com/strategicfinance**.

I hope you found this information useful. This is version one of this book. It will be updated along with any significant market changes to ensure that you are always one step ahead of the market and able to thrive no matter what curve balls are thrown your way.

To your success!

—*Tim Braheem*

About the Author

TIM BRAHEEM is an accomplished speaker and teacher in the mortgage industry. In 2002, he created LoanToolbox®, the industry's leading educational and marketing resource for loan originators. Tim is one of only nine loan originators inducted into Mortgage Originator Magazine's Hall of Fame, a distinction that he obtained by ranking as one of the top 50 producing loan officers in the nation for eight straight years. He has successfully originated loans in all markets, including the difficult years of 1994 and 1999, and is highly regarded as a motivator and thought leader in the mortgage industry.