Hey Mortgage Fans!

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Valuable Mortgage Information *and a lot of other really Cool Stuff!*

"Don't worry about the world coming to an end today. It is already tomorrow in Australia."
– Charles Shulz

As a loan officer I have to say I'm happy 2011 is here and last year is gone. The shock and awe campaign the banks used in 2010 worked spectacularly! In just 12 months time they managed to kill rain forests with requests for paperwork, deny loans for creditworthy people, and bottom out my self-esteem which took my parents and shrink a lifetime to build up. Remember how Tom Hanks cried uncontrollably in Castaway when Wilson floated away?[1] *That's how it felt every single day if you were a mortgage broker or banker trying to get your client approved. So just where did things go wrong last year, what can you expect if you apply for a loan this year, and what can be done to fix a system that is wound tighter than a Slinky? You'll find the answers below as we look at the state of the mortgage industry Jeopardy Style.*

Answer: *These types of loans started the real estate collapse back in 2008 yet still existed in 2010.*
Question: *What are subprime loans?* Three years ago banks were in denial about denials because they never happened. You submitted a loan – any kind of loan - and it got

Subprime loans are dead. Honest.

approved. I even won $20 on a bet with a guy in my office that I could get Abraham Lincoln and Richard Simmons approved for a loan to buy a home together in Wisconsin. When I told the underwriter it was just a joke she said she approved the loan because both men are trustworthy. (Side note: I wish I was making that up, yet at the same time I would trust them too.) However, the no-income verification loans and stated income loans were both eliminated in late 2009, but for half of last year banks still offered Option ARMs which many consider to be subprime loans. These were loans where two incredibly bad things could happen. First, equity could be taken away with each payment as the loan size would actually grow instead of get smaller. Second, when it was time for the interest rate to adjust (which in a lot of cases came after only six months) they would explode upward[2]. If it was not for these loans I'm convinced this country would not be as bad off as we got. So yes- these still existed for the first eight months of last year, but every bank completely cleaned out their portfolios to make sure they couldn't offer these anymore.

As of this date subprime loans don't exist unless you want to count FHA loans. FHA (Federal Housing Administration) insists they are not a warehouse for subprime loans, but no matter how they dress it up it sure looks like it.[3] Their loans are a lot less sensitive about credit scores and only require a 3.5% down payment. Huh? Wait, won't all the people that applied for subprime loans now just get an FHA loan? Yep. And a few years from now when FHA shuts down they'll wonder why they didn't learn from the subprime crisis. 60 Minutes is probably already preparing a piece on it. But for now, if your credit score is low and/or you don't have a lot for a down payment, FHA is a wonderful alternative to a conventional loan.

Answer: *These people ended Steve Bartman's role as the most hated person in Chicago.*

Question: *Who are appraisers?* And while we're at it let's blame them for the lousy season the Cubs are about to have this year too. Whoa, slow down there, Mortgage Fans. Like Bartman they don't deserve their reputation. Last year I had 114 clients I refinanced who I also refinanced in 2009. Out of those 114 there were 98 appraisals that came in lower in value compared to the year before. Many of these clients complained to me that their homes were worth more than the appraisal. What hurt the values? A few different things but the biggest factors were short sales and foreclosures. For example, if the Playboy Mansion is valued at $40 million and the house next door short sells for a million then Mr. Hefner's mansion is going to go down in value over 50% or more[4] - even if it's a foreclosure/short sale. It just takes one house to kill the values of the whole block.

The real estate collapse was started by a Chuck Norris roundhouse kick.

1. Is it just me or was Tom Hanks too emotional in this scene? I never bought it that Tom and the ball were 'just friends.'
2. Option ARMs were the Yoko Ono of the mortgage world. Things were going just fine, but once they showed up the party was over.
3. Similar strategy to what Crayola did when they came out with their "new" Electric Lime crayon when anyone with half a brain could see it was the same color as their Green-Yellow.
4. But does this guy even care about home values? He just got engaged to a girl 60 years younger and he spends the whole day in his pajamas.

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Underwriters have all taken the ultra-conservative approach that if there is one bad comp and two good comps they will hang their hat on the bad one.

What will appraisals be like today, you ask? Unfortunately I don't see a big change this year compared to last year. Appraisers are limited to what they can use for comps; most underwriters only want comps that have sold in the last 90 days, although if nothing has sold in the last 90 days some underwriters will go to 120 days. In this environment not much has sold at all, so it just wasn't loan officers who were crying last year. How can this area of the lending process be fixed? The one area where Fannie and Freddie could ease up would be to let appraised values stand for a year (now appraisals are only good for 3 months; a year ago they were good for twelve months) and let short sales and foreclosed homes only partially count for comps. Also, all of the part-time appraisers have been weeded out of the industry, so underwriters need to let the appraisers do their job and not second guess them. We saw a ton of this last year.

Answer: *This David Bowie song sums up what happened to the mortgage industry last year.*
Question: *What is Changes? (also acceptable: Under Pressure. Not acceptable: Dancing in the Streets[5]).*

I realized this newsletter is depressing so I'm putting these pictures in to cheer everybody up.

Here are the lowlights of what we saw last year:

1. Credit score requirements were once again raised. When I started writing loans 12 years ago the acceptable credit score was 620. Since then it has been raised to 650, 660, 680, 720, and last year to 740. At this rate pretty soon only Bill Gates, my brother, and Santa Clause will be able to get loans.

2. In 2009 I had over a hundred banks that offered home equity loans. Now I am down to two banks. All of the lenders pulled out of this market because the risk versus reward was not worth the gamble of a home going into foreclosure and then being second in line to get paid behind the primary mortgage. Without the home equity lines to fall back on, private mortgage insurance (PMI) has made a huge comeback as you can no longer use a home equity line to avoid paying PMI.

3. Two years ago there were 850 licensed mortgage companies in Illinois. Today there are 250. Three years ago there were 6,900 loan officers in Illinois. Today there are less than 1,500.[6] This is actually one of the good things that happened to our industry as it weeded out all of the riff-raff and fly-by-night loan officers.

4. Between 1998 (the year I started writing loans) and 2009 Fannie Mae and Freddie Mac made a total of 60 changes to their rules and regulations. Last year alone there were 211 changes. That's not to mention the almost daily changes that were made by lenders such as Chase, Citi, Wells, B of A, and GMAC last year. One day a client would be approved and the next day they wouldn't be. To sum up last year you could say the mortgage world was more unstable than my psycho college girlfriend who I won't mention by name in this newsletter even though she put me through hell.[7]

So what do you need to know for 2011? The dust has settled somewhat, and the approval process for a loan now is where it should have been all along. You'll need a job, and you'll need to show the underwriter paycheck stubs, bank statements, tax returns and W-2s. You'll need good credit. Besides taxes and death we can add one more certainty to life[8]: being approved for a loan will never be as easy as it once was. This country spent a trillion dollars trying to keep us out of a depression and the government is blaming it all on Wall Street, banks, mortgage brokers, and Justin Bieber. As a result Fannie and Freddie tightened up every aspect of the loan approval process. Are they done making changes? No. They continue to stream in although not at the pace we saw last year.

I opened the newsletter with a quote from Charles Shulz because it makes sense. Things may look bleak today, but things will be better tomorrow. Let's just hope Fannie and Freddie don't yank the football away when home buyers are ready to kick it.

Haiku winners: There are over 2,100 people on my mailing list. Of those 2,100 I received 314 (that's 15% of you) entries into the contest. Some of them were so beautiful they moved me to tears. And some were so bad I was also moved to tears. One thing can be certain – Haiku fever is alive and well! I liked the winning entry from Liz Talen from Chicago because it incorporated everything about the last newsletter (including Bill Cosby's wardrobe):

Fannie and Freddie
Like Cosby's 80s sweater
Are just plain confused.

Congrats to Liz for taking the $500 prize. Second place and $250 goes to Jeff Libman from Evanston:

Geitner prints the cash
Bernanke gives it to banks
I ain't got a cent.

Third place and $100 goes to Greg Grabacki from Carpentersville:

Chuck Norris uses Perl
Nobody pays lower than Chuck
Chuck Norris says so.

A big thank you to all who sent me poems. You are all winners in my book (except the 311 of you who did not win)!

Final thoughts:
*Next newsletter will be late summer, but be sure to check my website (HeyMortgageFans.com) for the weekly blog (and if you are not receiving the blog via email and want to get it – email me and let me know).
*Coming soon: Banky the Banker cartoon. Details to follow...
*This newsletter is now gluten-free!

5. The low-point of the 80s and Mick Jagger's career.
6. More disturbing numbers: forty years ago I had one imaginary friend. Today I have seven.
7. Jill Morrison
8. One more certainty in life I've found: if the first showcase on the Price is Right does not offer a vehicle, take a pass on it because the second showcase will always be better.