MORTGAGE SECRETS

for Real Estate Investors

How to **BEAT MORTGAGE LENDERS**
at their own game and **INCREASE YOUR PROFIT**
on every real estate investment.

by
Susan Lassiter-Lyons
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Dedication

Dorothy H. Lassiter
1910 – 1997

My Grandmother and Teacher

Thank you for the love, the lessons and the laughter.
Foreword

The mortgage business is a complicated and ever-changing industry. It is important that you understand how the mortgage market works and how the lenders make their profit. In doing so, you will gain an appreciation of loan programs and why certain loans are offered by certain lenders.

Investors use mortgage loans to increase their leverage. The more money an investor can borrow, the more he can leverage his investment. Rarely do investors use all cash to purchase properties, and when they do, it is on a short-term basis. They usually refinance the property to get their cash back or sell the property for cash.

The challenge is that loans for investors are treated as high-risk by lenders, as compared to non-investor (owner-occupied properties) loans. Lenders often look at leveraged investments as risky, and are less willing to loan money to investors. Lenders assume that the less of your own money you have invested, the more likely you will walk away from a bad property. The goal of the investor thus is to put forth as little cash as possible, pay the least amount in loan costs and interest, while keeping personal risk at a minimum.

As an investor, getting a mortgage may seem like a straightforward process on the surface. But as Susan and I well know it is the financing that can make or break the profitability of any real estate investment. It pays to do business with the experts and it pays to educate yourself about the process, with its many pitfalls and challenges, before you ever make offers on properties.

Real estate investing will make you a lot of money if you learn the techniques and apply yourself. The bottom line is that education will help you avoid mistakes and learn new ideas. Read books, go to seminars and learn from other investors. Your best investment is in yourself.

I regularly refer Colorado investors to Susan when they have challenging loan scenarios so I know the information you’ll learn from this book will serve you well in the future.

WILLIAM BRONCHICK

William Bronchick, CEO of Legalwiz Publications, is a Nationally-known attorney, author, entrepreneur and speaker. Mr. Bronchick has been practicing law and real estate since 1990, having been involved in over 1000 transactions. He has trained countless people all over the Country to become financially successful. His best-selling book, “Flipping Properties,” was named one of the ten best real estate books of the year by the Chicago Tribune. William Bronchick is also the author of the highly acclaimed books, “Financing Secrets of a Millionaire Real Estate Investor” and “Wealth Protection Secrets of a Millionaire Real Estate Investor.”

William Bronchick has served as President of the Colorado Association of Real Estate Investors since 1994.
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Introduction

Congratulations! You’re An Investor

Congratulations! You have decided to become a real estate investor—or you already are one! It’s an exciting profession and hobby. I first began investing in real estate back in 1994. My friends from work and I went to a seminar about investing in tax liens and, convinced we would soon be millionaires, set about researching the tax lien auctions that were happening in the counties of Colorado.

We formed a limited liability company and called ourselves The Lien Lords. Pretty clever, huh? When we got to the auction we had a pooled sum of $1000 and we ended up winning four tax liens. Tax liens back then paid close to 16% upon redemption so we made a few bucks when three of the liens redeemed within a year. The 4th lien, to this day, has never redeemed. This was a dinky $17 lien on a piece of vacant land in an area of Colorado called Strasburg. I figure if urban sprawl ever really sprawls then we will apply for the treasurer’s deed and make a profit when we sell the land.

My next foray into investing was after attending a seminar on lease options. I learned how to structure the sandwich lease option. I managed to get two properties under contract but then could never release option them.

Never one to be daunted, I then attended a seminar on how to invest in apartment buildings. This time, something happened—I got it! I actually understood the concepts and realized that multi-units were the strategy for me. I immediately bought a triplex that needed some work for $199,000. I put $16,000 into fixing it up and today it cash flows and is worth $315,000. Finally, after all those seminars, home study courses, mentorships and books read, I was finally a REAL real estate investor. This continues to be my personal focus today. I look each week for bank owned or distressed 3 and 4 unit buildings and have my realtor make offers.

However, as adept as I felt I was at the investing side of things, the one big gaping hole in my knowledge that I couldn’t really seem to find any information on, was the financing piece of the puzzle. I couldn’t figure out why there were so many rules that made no sense. For example, when I went to my bank and told them I wanted a loan for my triplex that gave me 100% of the purchase price plus rolled in all of the closing costs and repair costs, they actually laughed at me. LAUGHED at me right there in the office.

Again, never one to cove to a challenge, I went to work for a mortgage company. I figured it was a decent way to make a living plus gain insight into the lending process for investment properties. Turns out my gamble paid off. I started in a department called Secondary Marketing where I learned the mortgage industry from the top down. I learned how Wall Street buys pools of mortgages and I learned all about mortgage backed securities. I also learned how to price loans and how current events and economic indicators drive interest rates.
Then I went to work part-time on the side as a loan originator for a local broker to generate some real money for my knowledge. When my first commission check on one loan turned out to be bigger than my pay check for two entire weeks at the mortgage company, I quit on the spot to originate full time. After an appropriate number of months, I became a broker and set up my own shop arranging residential and commercial financing for real estate investors and that is what I continue to do today.

This book is my attempt to give you the benefit of the education I have received through lessons learned and hard knocks. Every mistake I have made and every crazy scenario I’ve encountered through my clients and associates is in this book. You now are privy to more than 6 years of insider mortgage knowledge. Use it wisely!

The Problem with Those Investment Gurus

In my previous chapter I mentioned a few real estate investment seminars that I have been to. It seems like there is a new one every week and a new guru to go with it. Now I am all for education and benefiting from knowledge that someone else has gained and is willing to share with me for a price, but I feel that some gurus are lacking in real world application. The stuff always sounds better in theory than it plays out in real life. Like the cash back at closing thing that so many people tout. Carleton Sheets says there are 10 ways (or more) to get cash back at closing. I know for a fact that many of them can never be accomplished using a conventional lender to finance your loan. You have to use hard money and pay almost three times as much for it.

Sometimes the tricks that they share with you just do not fly in the real world. This book will never be guilty of that. This is because I have spent a great deal of time rescuing people that are trying to do it according to some guru. Creatively finding ways to accomplish the theory in the real world is essentially my specialty. So, do not fear! This will not be another one of those situations where you could be rich if only the strategies actually worked. These strategies DO work and if you follow my advice, you will discover ways to get around some of the messes that other gurus can get you in.

Industry Secrets

A mortgage represents a loan or lien on a property that has to be paid over a specified period of time. Think of it as your personal guarantee that you’ll repay the money you’ve borrowed to buy a home. Mortgages come in many different shapes and sizes, each with its own advantages and disadvantages.

Back before 1934, insurance companies were the only entities providing financing for homes. After 1934, the Federal Housing Authority (FHA) was established to try to stimulate homeownership and they established mortgages with down payments as low as 50% and amortized over 5-7 years with balloon payments at the end of the term. Yikes!
Over time, the down payment requirements were lowered and many new types of loan programs were developed and marketed to make home ownership appealing and affordable to the masses.

Today we have literally hundreds of entities offering hundreds of different mortgages or loan programs. Ultimately most mortgages are securitized and sold off in bulk to agencies such as Fannie Mae and Freddie Mac through the Secondary Mortgage Market which is just a market in which existing mortgages and mortgage-backed securities are traded. Most lenders will either sell their loans outright for cash or swap them for mortgage-backed securities such as Participation Certificates which they can hang on to or sell to dealers for cash.

**The Secret Agencies**

An agency is just a congressionally chartered corporation which buys mortgages on the secondary market, pools them and sells them as mortgage-backed securities to investors on the open market. Monthly principal and interest payments are guaranteed by the agency but not by the U.S. Government. Examples of agencies in the mortgage industry are Fannie Mae (FNMA), Freddie Mac (FHLMC), FHA and Ginnie Mae (GNMA). All agencies have requirements for the types of loan they will buy or securitize. This is where rules or guidelines come into play. If the loan is “outside of guidelines” it is considered non-conforming. Non-conforming loans are also referred to as whole loans.

If a loan is outside of Fannie Mae’s standard guidelines, the agencies won’t buy it and the lender either has to service the loan themselves while holding it in their own portfolio or find a whole loan buyer that will buy it from them. Most whole loan buyers are Wall Street companies such as Bear Stearns, Credit Suisse, Lehman, Goldman Sachs, etc.

Lenders pool whole loans together with credit enhancements to create whole loan collateralized mortgage obligations or CMOs. Credit enhancements are designed to make the loans more palatable and to ensure investors receive timely interest payments. This, my friend, is why there are so many rules about mortgages for investment properties. Because mortgages on investment properties are the riskiest mortgages out there, the originators have to have these crazy rules to make them less risky and more attractive to the end buyer.

In a nutshell, this is why EVERY lender will do a 20% down 30 year fixed owner occupied mortgage but only a few will do a higher loan-to-value adjustable rate mortgage for an investor. The 30 year is an easy sell but they have a harder time unloading the riskier investor adjustable rate loan.

Mortgage lenders or originators also have the option of selling the loan and the servicing rights or just the loan or just the servicing. There are lots of different ways to profit from the sale of a mortgage.
This book isn’t meant to be a course in secondary marketing and mortgage securitization (thank goodness), I only bring it up to give you an idea of what is going on in the background and who is really making the rules.

**Mortgage Rate Secrets—why do they go up and down?**

To understand why mortgage rates change, we must first ask the more general question, “Why do interest rates change?” It is important to realize that there is not one interest rate, but many interest rates!

- **Prime rate**: The rate offered to a bank’s best customers.
- **Treasury bill rates**: Treasury bills are short-term debt instruments used by the U.S. Government to finance their debt. Commonly called T-bills they come in denominations of 3 months, 6 months and 1 year. Each treasury bill has a corresponding interest rate (i.e. 3-month T-bill rate, 1-year T-bill rate).
- **Treasury Notes**: Intermediate-term debt instruments used by the U.S. Government to finance their debt. They come in denominations of 2 years, 5 years and 10 years.
- **Treasury Bonds**: Long-debt instruments used by the U.S. Government to finance its debt. Treasury bonds come in 30-year denominations.
- **Federal Funds Rate**: Rates banks charge each other for overnight loans.
- **Federal Discount Rate**: Rate New York Fed charges to member banks.
- **Libor**: London Interbank Offered Rates. Average London Eurodollar rates.
- **6 month CD rate**: The average rate that you get when you invest in a 6-month CD.
- **11th District Cost of Funds**: Rate determined by averaging a composite of other rates.
- **Fannie Mae-Backed Security rates**: Fannie Mae pools large quantities of mortgages, creates securities with them, and sells them as Fannie Mae-backed securities. The rates on these securities influence mortgage rates very strongly.
- **Ginnie Mae-Backed Security rates**: Ginnie Mae pools large quantities of mortgages, secures them and sells them as Ginnie Mae-backed securities. The rates on these securities influence mortgage rates on FHA and VA loans.

Interest rate movements are based on the simple concept of supply and demand. If the demand for credit (loans) increases, so do interest rates. This is because there are more buyers, so sellers can command a better price, i.e. higher rates. If the demand for credit reduces, then so do interest rates. This is because there are more sellers than buyers, so buyers can command a lower better price, i.e. lower rates. When the economy is expanding there is a higher demand for credit, so rates move higher, whereas when the economy is slowing the demand for credit decreases and so do interest rates.
This leads to a fundamental concept:

- Bad news (a slowing economy) is good news for interest rates (lower rates).
- Good news (a growing economy) is bad news for interest rates (higher rates). A major factor driving interest rates is inflation. Higher inflation is associated with a growing economy. When the economy grows too strongly, the Federal Reserve increases interest rates to slow the economy down and reduce inflation. Inflation results from prices of goods and services increasing. When the economy is strong, there is more demand for goods and services, so the producers of those goods and services can increase prices. A strong economy therefore results in higher real estate prices, higher rents on apartments and higher mortgage rates.

Mortgage rates tend to move in the same direction as interest rates. However, actual mortgage rates are also based on supply and demand for mortgages. The supply/demand equation for mortgage rates may be different from the supply/demand equation for interest rates. This might sometimes result in mortgage rates moving differently from other rates. For example, one lender may be forced to close additional mortgages to meet a commitment they have made. This results in them offering lower rates even though interest rates may have moved up!

There is an inverse relationship between bond prices and bond rates. This can be confusing. When bond prices move up, interest rates move down and vice versa. This is because bonds tend to have a fixed price at maturity—typically $1000. If the price of the bond is currently at $900 and there are 10 years left on the bond and if interest rates start moving higher, the price of the bond starts dropping. The higher interest rates will cause increased accumulation of interest over the next 5 years, such that a lower price (ie. $880) will result in the same maturity price, i.e. $1000.
Effect of economic data on rates

Number of arrows indicates potential effect on interest rates. 1 arrow=least effect, 5 arrows=max. effect.

<table>
<thead>
<tr>
<th>Economic Event</th>
<th>Effect on Interest Rates</th>
<th>Significance of Event</th>
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<tbody>
<tr>
<td>Consumer Price Index (CPI) Rises</td>
<td>▲▲▲▲▲</td>
<td>Indicates rising inflation</td>
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<tr>
<td>Dollar Rises</td>
<td>▼</td>
<td>Imports cost less; indicates falling inflation</td>
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<tr>
<td>Durable Goods Orders Increase</td>
<td>▲▲▲</td>
<td>Indicates expanding economy</td>
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<td>Gross National Product Increases</td>
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<td>Indicates strong economy</td>
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<tr>
<td>Home Sales Increase</td>
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<td>Indicates strong economy</td>
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<td>Housing Starts Rise</td>
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<tr>
<td>Industrial Production Rises</td>
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<td>Indicates strong economy</td>
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<tr>
<td>Business Inventories Rise</td>
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<td>Indicates weak economy</td>
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<tr>
<td>Leading Indicators (LEI) Increase</td>
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<td>Indicates strong economy</td>
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<tr>
<td>Personal Income Rises</td>
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<td>Indicates rising inflation</td>
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<td>Personal Spending Rises</td>
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<td>Indicates rising inflation</td>
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<td>Producer Price Index Rises</td>
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<td>Indicates rising inflation</td>
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<tr>
<td>Retail Sales Increase</td>
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<td>Indicates strong economy</td>
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<tr>
<td>Treasury Auction Has High Demand</td>
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<td>High demand leads to lower rates</td>
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<tr>
<td>Unemployment Rises</td>
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<td>Indicates weak economy</td>
</tr>
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OK! On to the good stuff!

Your Secret Ratio

Debt to income ratio is simply your total debt divided by your gross monthly income. But to get the real picture, there are two types:

1. One is your top ratio or your payment to income ratio. This is the total present monthly housing expense divided by your gross monthly income.

2. The second ratio is the most important one in terms of mortgage lending and it is known as the bottom or back ratio. This is calculated by dividing your total monthly debt payments by your gross monthly income.

Back ratios can go as high as 60% for some sub prime programs. For most investment loan programs, 50% is the max and if you are trying to qualify for an agency loan the max is normally 41%.
Let's use our plumber again as the example. Let's say that according to his credit bureau his monthly debt obligations are as follows:

- Countrywide (primary residence mortgage payment) $1500
- MBNA VISA $25
- Macy’s $25

His total monthly debt payment is $1,550. If we divide that by his income in $5000 then we have a back ratio or debt ratio of 31%. So far, so good!

### Special Secrets for the Self Employed Investor

All investor loans must be fully documented which means if you are self employed they will use your tax returns to get your income. Make sure you’re showing enough income on your taxes so that your debt to income ratio will qualify!

### Credit Score Secrets

Here we go. This chapter could be a book all on its own. I hope as an investor you realize that this is a cornerstone of your business and you therefore already have a good understanding of it. I will explain your credit score as it relates to mortgage lenders and underwriting guidelines.

When you first begin the loan qualification process, your mortgage broker will pull a tri-merge credit report on you. This means that one single credit report will pull in your scores and reported information from all three of the main credit bureaus.

### The Credit Bureaus

- **Experian/FICO**
- **TransUnion/Empirica**
- **Equifax/Beacon**

We pull from all three because not all creditors report to all three bureaus. This is just the lender’s way of making sure they don’t miss anything. Once they get the report, they will use the middle of the three scores as the credit score on the file.

Let’s say that your scores are:

- **Experian/FICO**: 678
- **TransUnion/Empirica**: 701
- **Equifax/Beacon**: 708
We would say that your score is 701 for the purpose of this particular transaction.

If a bureau doesn't have enough reported information in order to score you then sometimes it won't return a score at all. In this case you would just have two scores and the lender will use the lower of the two for the transaction.

The general rule is that you can qualify for a conforming mortgage with a minimum credit score of 620. Anything below that is considered sub prime and anything 720 and above is considered A+. This rule is for full doc primary residence loans only. For a stated income investor loan the minimum score is usually 680. If you are a full doc investor you’ll want to have at least a 660. Again, this is a rule of thumb so don’t despair if your scores are lower. There are many lenders out there that will accept much lower scores on investment loans.

Investors ask me all the time what they can do to improve their credit scores. There are three types of debt reported on your credit report—mortgage, installment and revolving. Hopefully you know what a mortgage debt is! Installment debt is anything that has a fixed monthly payment such as a car payment and revolving debt is debt that can fluctuate on a monthly basis like a credit card.

Anytime you have a late payment (30 days or more) it will affect your credit in a negative way. However, if you are having a bad month and you have to choose one obligation NOT to pay, the one that will affect your score the least is the revolving debt. If you are an investor, you must take care to NEVER pay a mortgage late. It truly could be the kiss of death. Also, try not to utilize more than 50% of your total available revolving credit and try to limit the number of times your credit is pulled to no more than four times per quarter.

To check your three scores online instantly visit the Bonus Offers page at http://www.mortgagesecretsbook.com/Bonus

Loan to Value Secrets

Mortgages are categorized and priced fundamentally based on the loan to value of the subject property. The definition of LTV from investopedia.com is:

“A LENDING RISK ASSESSMENT RATIO THAT FINANCIAL INSTITUTIONS AND OTHERS LENDERS EXAMINE BEFORE APPROVING A MORTGAGE. TYPICALLY, ASSESSMENTS WITH HIGH LTV RATIOS ARE GENERALLY SEEN AS HIGHER RISK AND, THEREFORE, IF THE MORTGAGE IS ACCEPTED, THE LOAN WILL GENERALLY COST THE BORROWER MORE TO BORROW OR HE OR SHE WILL NEED TO PURCHASE MORTGAGE INSURANCE.”

Calculated as:

\[
\text{Loan to Value Ratio} = \frac{\text{Mortgage Amount}}{\text{Appraised Value of the Property}}
\]
Fannie Mae and other agencies require that the borrower have mortgage insurance on a loan that has an LTV of 80.01% or higher.

I get scenarios all the time where investors have a seller that has agreed to carry back a 2nd mortgage of 20% and they want 80% financing for the property. With all conventional lenders this is still going to be a 100% deal because the CLTV adds up to 100%. You can’t just say it’s an 80% loan even though that’s all you’re asking of the lender because you are still going to have secondary financing on the property.

Mortgage insurance coverage is usually charged as a percentage of the loan amount and the higher the loan to value, the higher the coverage percentage.

**Property Type Secrets**

Now, just as the underwriter is qualifying you based on your credit history, reserves, etc they are also qualifying the subject property. Lenders don’t want to write loans on properties that they think are weird or “outside the guidelines”. The easiest property to finance is obviously the single family residential detached house or SFR.

Lenders are just like the rest of us—they stick with what they know.

Most lenders will follow Fannie Mae’s guidelines to determine what properties are eligible for loans and which ones aren’t. Here’s a list of eligible properties according to Fannie Mae.

**Eligible Property**

- 1 - 4 unit Single-Family dwelling (detached, semi-detached, attached);
- Unit within a planned unit development (PUD) (detached, semi-detached, attached);
- Unit within a condominium building with no restrictions on the number of stories.

**Eligible Structure**

- Site Built;
- Modular Precut/Panelized Housing.

Ineligible properties according to Fannie Mae are:
Ineligible:

- Manufactured Housing:
  - Condo-hotels (condotels);
    - Non-warrantable condos;
    - Boarded-up Properties;
    - Post-Pier-Beam, Stilts and Cantilevered foundations (may be considered on a case-by-case basis);
    - New properties without a satisfactory Certificate of Completion or Certificate of Occupancy and a final appraisal certifying completion and value;
    - Commercial properties;
    - Co-ops;
    - Property damaged or deteriorating, such that if it is prohibitively expensive or unfeasible to restore the structure to habitable condition;
  - Economic Life of Less than 30 Years;
  - Properties with current or potential environmental hazard risk;
  - Properties with marketing time in excess of nine (9) months;
  - Properties that are not insurable because they are situated in a flood hazard area not eligible for participation in the National Flood Insurance Program;
  - Properties with identified potential for property damage from local geological conditions;
  - Properties located on or near hazardous waste sites;
  - Properties designated by the appraiser as "Not highest and best use;"
  - Houseboats, including those permanently affixed to piers, docks, or moored to land;
  - Properties that are a wholly illegal or non-conforming use for the site;
  - Illegal/Ineligible Improvements/Additions;
  - Properties that are an imminent threat to the health or safety of the occupant;
  - Properties with less than present code foundations (i.e., mud sills, unreinforced brick, concrete blocks) and residential properties that are not permanently affixed by a foundation;
  - Properties without permanently affixed legal heating systems (not space heaters or fireplaces);
  - Properties that lack city or county maintenance or services;
  - Properties without full utilities installed to meet all local health and safety standards including: Continuing supply of potable water, public sewer or certified septic system, public electricity, natural or LP gas;
  - Vacant land or properties that are effectively vacant land (i.e. improvements contribute 10% or less to the total value), value will be given only to the lot with residential improvements;
  - Properties with more than four (4) units;
  - Properties listed for sale within the past six (6) months;
  - Properties with severe location detriments;
  - Poor marketability’s (access, condition, etc.);
  - Mobile Homes share all the same characteristics as Manufactured Homes (see definition)
except that they were built prior to June of 1976 when the Federal Manufactured Home Construction and Safety Standards (HUD code) became effective;

- Identified recent or pending zoning changes which would have a negative or destabilizing impact on residential market values;
- Raw Land;
- Resort properties that are not within a reasonable commuting distance of employment centers;
- Rooming and Boarding Houses;
- Timeshares;
- Working farms where the Borrower’s income is derived from use of the land (agriculture, horse ranch, etc.);
- Residential properties that are not permanently affixed to land by a foundation;

and

- 2-4 units within a PUD
- Condominium projects with recreation leases
- Manufactured Homes purchased from a Manufactured Home dealer
- Properties that cannot be rebuilt ‘as is’ if destroyed

And I can add two that I have been asked about recently—geodesic domes and abandoned school busses with no electricity or plumbing. Don’t ask.

Now, I don’t want you to look at this list and freak out. Just because the agencies deem it ineligible, there are lenders out there that specialize in ineligible properties.

One very important thing to remember is just because a property is eligible doesn’t mean you will be able to get 90% financing for it. For example, some lenders will offer 90% financing on single family residences but only 85% on triplexes.

For investors you will usually be able to find 90% financing for residential 1-4 unit properties and condos.

**Condo Secrets**

Condos need a chapter all of their own because there are a ton of special rules and guidelines, secrets if you will, regarding condos. A condo will be deemed by the lender as either warrantable or non-warrantable. A warrantable condo will usually sail through for any type of financing but a non-warrantable condo requires a special lender.

Condominiums create additional risk because the homeowners’

---

*Quick Secret No. 1*

If you buy condos, ask to see the HOA questionnaire to make sure that your condo is warrantable and there aren’t any problems financial or otherwise with the home owners association.
Association has legal rights that could adversely impact the lender’s rights. Prior to funding a loan a lender will require that a HOA fill out a questionnaire. Each lender has a standard form and this is how they get info about warrantability, etc. If an HOA seems iffy, it’s not a bad idea to have your broker have them fill out the questionnaire before you make an offer. That way you know before you even make an offer if there will be issues regarding the project.

I once had a client that had a bunch of condos in the same development under contract. These condos were all in foreclosure and we suspected that the HOA was pretty shaky. The lender required the questionnaire from the HOA and they said that they could never get a hold of the manager. I called my client and told him what was going on and he said, “Well, he doesn’t have a computer and his phone got shut off but I can go knock on his door and see if he’ll give me the records.” Um, yeah. Good luck with that.

Generally, lenders do not want to lend on more than 20% of the total units in a project, will not lend if the HOA is involved in any type of litigation, and if there is commercial space (i.e. first floor restaurant, deli, hair salon, grocery store, etc.,) there should be no more than 20% commercial space within the building.

Additionally, lenders like to see that the project is at least 90% completed, that no more than 10% of the units are owned by a single entity, that it is no more than four stories and that at least 50% of the units are owner occupied.

I just had a deal where the HOA was being sued by a home owner and the lender declined the loan. I requested a copy of the suit from the attorney and discovered that it was all over a “funny smell” in one unit. Because the litigation did not involve a structural issue, the lender reconsidered and approved the loan. Oh, and my borrower (also my nephew) reports that his unit smells just fine.

**Rural Property Secrets**

Real estate investors are everywhere and not all of them have the advantage of living in metropolitan areas. Unfortunately, rural properties and properties with a lot of acreage can be difficult to finance. The main reason for this problem is that the value of the property can often be difficult to determine.

Appraisals rely heavily on comparable sold prices within a mile or so of the subject property. In a rural area with houses far away from each other, it’s hard to get good comps. These homes tend not to sell very quickly and the lender may shy away since their main concern is always about taking the property back through foreclosure.

Usually, lenders will require larger down payments on these types of properties.
Mobile Home Secrets

There are investors that invest in mobile homes as rentals and they do very well. Financing mobile homes, especially as a non-owner occupant, is difficult. Mobile homes, also known as manufactured housing, are not universally liked by lenders. If you are considering investing in mobile homes here are a few guidelines to follow to ensure you can get these things financed:

1. Make sure the mobile home was manufactured later than 1976. All manufactured homes built since June 15, 1976, must conform to the HUD Code, a building code administered and enforced by the U.S. Department of Housing and Urban Development. Manufactured homes are the only form of housing constructed to comply with a national building code. Look for the HUD certification label on the home.

2. Make sure it is a double-wide.

3. Make sure it is on a permanent foundation with all wheels, axels, and hitches removed.

4. Make sure you have a down payment. High LTV financing is not available for investors on this type of property.

Loan Application Secrets

Fannie Mae form 1003 is also known as the Uniform Residential Loan Application. All lenders are required to use this industry specific form. If you have applied for a mortgage before, I’m sure you have completed or at least signed one of these documents. The document is usually five pages long and has nine sections:

1. The type of mortgage and terms of loan
2. Property information and purpose of the loan
3. Borrower Information
4. Employment Information
5. Monthly Income and combined housing expense information
6. Details of the transaction
7. Declarations
8. Acknowledgement and agreement
9. Government monitoring section

For investors, you’ll want to make sure that the application states you are purchasing an investment property and in the declarations, state that you do not plan to reside in the property. Sometimes my
clients will mark up the application and change the amount owed on credit cards or installment loans. Don’t do this. This information is usually automatically populated from the credit report so when completing the application it’s important that the numbers match the credit report.

Another thing to remember, with regard to your employment on a loan application, NEVER claim that you are a real estate investor. You might as well say you’re a drug dealer in terms of what an underwriter will think of you being a real estate investor. All it means to them is that if you are investing in real estate as a job there is really no way for you to earn regular income. It means that you are waiting for houses to sell or conditions to be right so you can purchase additional inventory for your business so you can flip that inventory. They don’t ever like to see employment that has anything remotely to do with real estate investing.

If you are a new investor just setting up your entity, and I could give you one good piece of advice it would be please don’t name your company something like Foreclosure Investment Specialists, LLC or Real Estate Investment Services Inc., or anything like that. This will be a big tip off to the underwriter as to what you do. In fact if you are self employed (and I do this with my self employed real estate clients that invest full time), I would prefer to say you are involved with property management or that your company does home improvements instead of saying you are a real estate investor just so we don’t raise any eyebrows.

Ok, back to the application. If you recently paid something off and it has not been reflected in your credit report yet let your broker know, especially if it’s really affecting your debt to income ratio. If you provide proof of the payment the lender can usually get a quick update from the credit bureau to reflect the lower balance.

Also, make sure to check your income and list of real estate owned very carefully. Remember you are signing a legal document so use appropriate care.

For purposes of the application you will need to also submit some documentation to support what you have stated in the loan application. The documentation will vary based on the documentation type loan you have chosen (full doc, stated income, no doc, etc) but for now we will assume that you are applying for a full doc loan.

The standard list of documents your broker will need to include in your loan package are:

**Verification of income**

- **Earnings statements:** W-2 forms, recent pay stubs and tax returns for the past two years;
If you are self-employed: profit and loss statements and tax returns for current year and previous two years;

Additional income: social security, overtime bonus, commission, interest income, veteran’s benefits and so on.

If you have rentals and you are using rental income to qualify, the lender will also want to see a copy of the lease(s). Most lenders will only count 75% of the gross rental income as income. This means that if your lease says you collect $1000 rent each month the lender will only give you income credit for $750 so plan accordingly!

Verification of your assets

- Checking and savings account statements for the previous 2-3 months;
- List of savings bonds, stocks or investments and their approximate market values.

Information about the purchase

- Copy of the ratified purchase contract
- Copy of the earnest money check

Your debts

- Evidence of mortgage and/or rental payments
- Copies of alimony or child support or divorce decree if applicable.

Lenders may also ask you about the origin of your down payment. If the money for the down payment is a gift from a relative, get a gift letter and copy of the gift check. The gift letter states that the money will not have to be repaid.

Keep in mind that different lenders may have slightly different information requirements, so these requirements may vary. Also, after your loan is submitted to the lender and goes through underwriting, your broker may need to get additional documentation from you that the underwriter requests so be ready!

Pre-Approval Secrets

This is a good one. Buyers with a mortgage pre-approval have a huge advantage when they are making offers on properties. A pre-approval shows the seller that you are a fully qualified buyer with financing already in place and can sometimes make the difference between a seller choosing to accept your offer over another offer.
Pre-approval will determine the maximum you can spend on a house before you shop, so you know what price range to target. Many buyers aim too high, bidding on a property that they later learn is beyond their means because of debt to income issues or due to cash flow issues relative to the monthly mortgage payment (in the case of a rental).

The contract you sign when you make an offer on a property allows a finite period in which to find a mortgage—typically 30 days or less. If you fail to secure financing within that period, the seller may cancel your contract and you lose your earnest money.

Pre-approved buyers can usually close more quickly and that is a bonus to a seller. Ultimately, being pre-approved gives you bargaining power.

Some brokers pre-qualify applicants based on a cursory check, never actually pulling credit or verifying assets and income which is necessary to guarantee a loan. Without these steps, it's not a true pre-approval and it carries no weight. In a true pre-approval, the lender will give you a letter bearing your name and the maximum loan amount you are pre-approved for.

The length of the pre-approval process varies, depending on the lender and applicant. Some brokers can complete it in a few hours. Lenders that promise 20-minute pre-approval usually take that amount of time to gather and discuss the applicant’s information, but the approval is still pending a review of the applicant’s resources, income and debt.

The next step in this process, the actual underwriting or final approval, happens after your offer has been accepted and your loan has been processed, packaged and sent to the lender. Once all the underwriting conditions have been satisfied, the underwriter will issue the final approval and give your broker the clear to close!

**Reserve Secrets**

When you apply for a mortgage there will usually be what’s known as a reserve requirement. This just means that in addition to your down payment and closing costs the underwriter wants to make sure you have some money in the bank to cover the first few monthly payments. The requirement varies from lender and loan product but as an investor you should try to have a minimum of six months payments in reserves. The reserve requirement on refinances and owner occupant purchases can be as little as zero to two months.

**Some lenders will also require that these reserves be seasoned and sourced.** “Seasoned” means that you can prove that you have had the money for 60 days or so. This is usually determined from your bank statements. When they want to “source” the money that means that if all of a sudden a huge deposit shows up on your bank statement, the underwriter will want to know where it came from. In this
situation they may ask you to provide documentation of the source of the money. For example, if you just sold a house they may ask for a copy of the HUD1 settlement statement to source the money.

If you are going to have a problem sourcing and seasoning your cash to close, then let your broker know. Sometimes there are ways around using your statements to source and season the money such as obtaining a Verification of Deposit from your bank.

Some lenders will require 6 months’ PITI per property owned so make sure you get the details of what they require early in the process since that can really add up!

**Loan Product Secrets**

The loan product that you select for financing an investment property is probably the most important decision you will make with regard to your profitability. This decision is also wholly dependant on your exit strategy. Before you ever make an offer on a property, you should have an idea of what your intention is with regard to your particular investment strategy and ultimately your exit strategy. This will naturally lead you to the correct loan product for your investment goal.

The most important question you need to ask yourself is whether you will be flipping this property or keeping it as a rental. Secondly, how comfortable are you with the future of interest rates if you will be holding it long term. These questions will help you make informed decisions about fixed or adjustable financing, prepayment penalties and points and fees.

A **fixed rate mortgage** is one that has the same rate for the loan term—usually 30 years. The rate will never change during the course of your loan.

An **adjustable rate mortgage** is different. There will be a fixed rate period—anywhere from one month to ten years. After that period is up your loan will adjust and your rate will change. ARM payments are based on the index plus the margin. The final rate will be known as the fully-indexed rate.

The most common mortgage loan indexes or indices if we’re being grammatically correct are:

- Prime Rate
- 11th District Cost of Funds Index (COFI)
- 1 Year Treasury (CMT)
- 12 Month Treasury Average (12MAT/12MTA)
- Fed Funds Target Rate
- Certificates of Deposit Index (CODI)
CMT, COFI, and LIBOR indexes are the most frequently used. Approximately 80 percent of all the ARMs today are based on one of these indexes. You can find historical comparisons of these indices and their comparative volatility online.

### The Secret of Determining Your Interest Rate

Let's say you have a 5/1 LIBOR ARM. This means that you have an adjustable rate mortgage that is fixed for the first five years of the loan term. After that the rate will adjust to the LIBOR index plus the margin agreed to at the start of your loan. The margin is the number of percentage points (for example, 2.75) the lender adds to the index rate to calculate the fully indexed interest rate at each adjustment.

The margin is set in the mortgage contract, remains fixed for the term of the loan and is not impacted by the financial markets and movement of interest rates. When trying to determine margin, just know that the less money you put down and the less documentation you provide, the higher your margin will be.

Additionally, ARMs will have what is known as rate caps. Rate caps limit how much interest you can be charged. There are two types of interest rate caps associated with ARMs. Periodic caps limit the amount your interest rate can increase from one adjustment period to the next. Not all ARMs have periodic rate caps. Overall caps limit how much the interest rate can increase over the life of the loan. Overall caps have been required by law since 1987.

A payment cap limits how much your monthly payment can increase at each adjustment. ARMs with payment caps often do not have periodic rate caps.

#### Example Life-Time Cap:

- **ARM index rate:** 4.5%
- **ARM margin:** 2.5%
- **Life-Time Cap:** 4%
- **Current Interest rate:** 7.0% (index rate + margin)

When your fixed rate period is over let’s say that the ARM index rate has jumped to 8%

The new interest rate equals 8% + 2.5% = 10.5%

The life-time cap limits the new interest rate to: 4.5% + 4% = 8.5%
Example Adjustment Rate Cap:

**ARM index rate:** 4.5%

**ARM margin:** 2.5%

**Periodic Adjustment Rate Cap:** 1%

**Current Interest rate:** 7.0% (index rate + margin)

The ARM index rate has jumped to 6%

The new interest rate equals 6% + 2.5% = 8.5%

The adjustment rate cap limits the new interest rate for the adjustment period to: 4.5% + 1% = 5.5%

So your new rate will be limited to: 5.5% + 2.5% = 8.0%

Rate caps may not be important to you now but they should be a very important factor when deciding to go with an adjustable mortgage over a fixed rate. You do not want to experience payment shock when your initial fixed rate period is up and you adjust to the fully indexed rate. It could wipe out all of your monthly cash flow and more on a rental.

Amortization Secrets

According to investorwords.com, which is a great website by the way, the definition of amortization is the gradual elimination of a liability, such as a mortgage, in regular payments over a specified period of time. Such payments must be sufficient to cover both principal and interest.

Amortization really just has to do with the ratio of principal and interest to be paid with each payment. Your broker can provide you with an amortization schedule that shows the amount of principal and interest made with each monthly payment.

Here is a snapshot of a sample 3 year amortization schedule of a $100,000 loan at 7% interest:

<table>
<thead>
<tr>
<th></th>
<th>Principal</th>
<th>Interest</th>
<th>Cum Prin</th>
<th>Cum Int</th>
<th>Prin Bal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>81.97</td>
<td>583.33</td>
<td>81.97</td>
<td>583.33</td>
<td>99180.03</td>
</tr>
<tr>
<td>2</td>
<td>82.44</td>
<td>582.86</td>
<td>164.41</td>
<td>1166.19</td>
<td>99835.59</td>
</tr>
<tr>
<td>3</td>
<td>82.93</td>
<td>582.37</td>
<td>247.34</td>
<td>1748.56</td>
<td>99752.66</td>
</tr>
<tr>
<td>4</td>
<td>83.41</td>
<td>581.89</td>
<td>330.75</td>
<td>2330.45</td>
<td>99669.25</td>
</tr>
<tr>
<td>5</td>
<td>83.90</td>
<td>581.40</td>
<td>414.65</td>
<td>2911.85</td>
<td>99585.35</td>
</tr>
<tr>
<td>6</td>
<td>84.39</td>
<td>580.91</td>
<td>499.04</td>
<td>3492.76</td>
<td>99500.96</td>
</tr>
<tr>
<td>7</td>
<td>84.88</td>
<td>580.42</td>
<td>583.92</td>
<td>4073.18</td>
<td>99416.08</td>
</tr>
<tr>
<td>8</td>
<td>85.37</td>
<td>579.93</td>
<td>669.29</td>
<td>4653.11</td>
<td>99330.71</td>
</tr>
<tr>
<td>9</td>
<td>85.87</td>
<td>579.43</td>
<td>755.16</td>
<td>5232.54</td>
<td>99244.84</td>
</tr>
<tr>
<td>10</td>
<td>86.37</td>
<td>578.93</td>
<td>841.53</td>
<td>5811.47</td>
<td>99158.47</td>
</tr>
<tr>
<td>11</td>
<td>86.88</td>
<td>578.42</td>
<td>928.41</td>
<td>6389.89</td>
<td>99071.59</td>
</tr>
<tr>
<td>12</td>
<td>87.38</td>
<td>577.92</td>
<td>1015.79</td>
<td>6967.81</td>
<td>98984.21</td>
</tr>
</tbody>
</table>
Even though this just shows the first 12 payments, you will see that as the payments go on, the amount of principal you pay increases while the amount of interest you pay decreases.

The rule of thumb is that if you have a loan amortized at 30 years, the principal reduction will be less monthly than a loan amortized at 15 years. As a result, the monthly payment on a 15 year loan is significantly higher than the payment on a 30 year loan.

Here are the first 12 payments for that same loan amortized over 15 years:

<table>
<thead>
<tr>
<th>Pmt</th>
<th>Principal</th>
<th>Interest</th>
<th>Cum Prin</th>
<th>Cum Int</th>
<th>Prin Bal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>315.50</td>
<td>583.33</td>
<td>315.50</td>
<td>583.33</td>
<td>99684.50</td>
</tr>
<tr>
<td>2</td>
<td>317.34</td>
<td>581.49</td>
<td>632.84</td>
<td>1164.82</td>
<td>99367.16</td>
</tr>
<tr>
<td>3</td>
<td>319.19</td>
<td>579.64</td>
<td>952.03</td>
<td>1744.46</td>
<td>99047.97</td>
</tr>
<tr>
<td>4</td>
<td>321.05</td>
<td>577.78</td>
<td>1273.08</td>
<td>2322.24</td>
<td>98726.92</td>
</tr>
<tr>
<td>5</td>
<td>322.92</td>
<td>575.91</td>
<td>1596.00</td>
<td>2898.15</td>
<td>98404.00</td>
</tr>
<tr>
<td>6</td>
<td>324.81</td>
<td>574.02</td>
<td>1920.81</td>
<td>3472.17</td>
<td>98079.19</td>
</tr>
<tr>
<td>7</td>
<td>326.70</td>
<td>572.13</td>
<td>2247.51</td>
<td>4044.30</td>
<td>97752.49</td>
</tr>
<tr>
<td>8</td>
<td>328.61</td>
<td>570.22</td>
<td>2576.12</td>
<td>4614.52</td>
<td>97423.88</td>
</tr>
<tr>
<td>9</td>
<td>330.52</td>
<td>568.31</td>
<td>2906.64</td>
<td>5182.83</td>
<td>97093.36</td>
</tr>
<tr>
<td>10</td>
<td>332.45</td>
<td>566.38</td>
<td>3239.09</td>
<td>5749.21</td>
<td>96760.91</td>
</tr>
<tr>
<td>11</td>
<td>334.39</td>
<td>564.44</td>
<td>3573.48</td>
<td>6313.65</td>
<td>96426.52</td>
</tr>
<tr>
<td>12</td>
<td>336.34</td>
<td>562.49</td>
<td>3909.82</td>
<td>6876.14</td>
<td>96090.18</td>
</tr>
</tbody>
</table>

You can see that this is a much more aggressive payment schedule.

A balloon loan is a loan that is amortized at 30 years but due to be paid off with a balloon payment at the end of a term of usually 5, 10 or 15 years. Five year balloons aren’t a very popular loan program for investors but a fixed rate 2nd mortgage is usually a balloon product. It’s called a 30 due in 15 which means that the payment is amortized over 30 years but you have a balloon payment at 15 years.

Secret Loan Features for Investors

It’s very important to understand the difference between a loan product and a loan feature. It may help to think of the concept in terms of a car. You buy a certain model but that model has additional features that you pay extra for—same with loans. Just remember, if you add these features to your loan, it will usually cost you a little more in rate each month.

Here are some loan features that are popular with investors:
Interest Only

This is probably hands down the most requested loan feature for investors. It is a way to reduce your monthly payment (and increase your monthly cash flow) by paying only an interest payment each month—no principal.

Not paying principal each month means that you are relying solely on appreciation to increase the equity in your property, so make sure you are only applying this feature on those properties that you feel will appreciate a little faster than normal.

When this feature was first introduced it was usually a free feature. Now lenders charge anywhere from .125 to .500 for the feature, so do the math before you decide if it will work for you. For example, take a look at this scenario:

**Loans amount:** $200,000  
**Interest rate:** 7%  
**Interest Only feature:** .375%  
**30 year amortization**

Your fully amortized payment (principal and interest) will be $1330.60*

Your interest only payment will be $1229.16 (200,000 * 7.375%/12).

You will save $100 a month but is it worth it to pay a higher rate and not have the benefit of principal reduction/equity increase to save $100/month? Only you can decide.

* You can find a free calculator online that will calculate this for you at [http://www.realdata.com](http://www.realdata.com).

**Quick Secret No. 4**

*If your deal is 80% LTV or below (meaning you are putting down 20%) you can waive escrows in order to reduce your closing costs. That means you will not have to fund your escrow account for taxes and insurance at the closing. That will really reduce your closing costs.*

Waive Escrows

As an investor, sometimes you prefer to pay the taxes and insurance separately from the mortgage. You can do this if you choose to not allow the lender to set up an escrow account to collect and pay the taxes and insurance on your behalf. This is known as “waiving escrows” or “no impounds”. Escrows are also referred to as “prepaid closing costs”.

If you are putting 20% down on the deal and your loan to value is 80% or less, then the lender doesn’t really care and will charge nothing for this feature. If you are using higher LTV
financing, then the lender does care and this feature will usually cost you .250. The advantage to waiving escrows can really be seen at closing. Since you have to fund your escrow account at closing, you can actually use waiving escrows as a strategy to reduce your out of pocket closing costs.

**40 year amortization**

40 year amortization is a feature that was introduced to give the advantage of an interest only payment and the benefit of a principal reduction each month. If we use the same loan scenario from above and assume that this feature will also cost us .375 in rate, the monthly payment will be $1297.70. It kind of lands you halfway between the interest only and the 30 year. Again—an option.

**Hard Money Loan Secrets**

Hard money loans are also known as asset based loans. Investors are usually trained to finance their acquisitions with this type of loan because the property qualifies—not the borrower.

Investors are told all the time to just go get a hard money loan. This way, your credit and assets will never be a factor in the decision AND you can close fast.

This was very true back in the old days when a rich guy would loan an investor 65% of the value of the property just by looking at the house and doing some quick comps. The rich guy would not require a credit check and could close quickly with cash. The rich guy did this because he charged big fees (5% or so in points) and high interest rates (10-18%). And he figured that there was plenty of equity in the place if he ever had to foreclose on the investor. Sometimes the old rich guys made these loans because they WANTED to foreclose on the properties!

It's rare today to find a true, old-fashioned asset based loan. Most hard money lenders today prefer to be called private money lenders and will require some sort of qualification for the borrower in addition to the property. Sure, the credit score requirement will be lower than a conventional lender but be prepared to disclose some information to the private money lender.

For example, here are the products and requirements of our most popular hard money fix&flip loans:

**70% LTV Program**

- 15% interest only payments
Today the real advantage of using a hard money loan instead of a conventional loan lies in the fact that the hard money loan LTV is based on the value of the property subject-to the repairs being made instead of the as-is value. Conventional lenders have the “lesser-of” rule which states that the loan amount will be the lesser of the sales price or the appraised value.

Obviously as an investor buying fix up properties, your sales price will be significantly lower than the value of the property.

My opinion, in case you were wondering, is to use hard money to fund the acquisition and repairs, then do a conventional rate and term (no cash out) refinance to cut your holding costs in half and/or greatly improve your cash flow.

Rate Secrets

Who has the best rates? Wholesale, Correspondent or Retail? Wholesale, Correspondent and Retail are the three origination channels in residential mortgage lending. The best rates may be a relative thing but I will give you some information that may help you with your decision.

If you just walk into a strip mall office of a lender like Countrywide or Washington Mutual, you are walking into a retail origination office. Their secondary marketing office each day publishes a rate sheet for them with all of their available loan programs and corresponding rates. It is generally accepted that these rates are higher than the rates the same institutions offer to their wholesale brokers or correspondent lenders.

I worked in secondary marketing at a correspondent lender and each morning we would publish a rate sheet for our internal loan officers or originators. This was a national home builder. We would download the correspondent rate sheet from the lenders we sold to each morning and then MARK THEM UP by a certain percentage that varied by loan product. We would do this before ever releasing the rate sheets to our own internal loan officers so the par rate that they were offering to their borrowers was not a par rate at all. It had premium built into the rate already.

Even if the customer asked to see the rate sheet, they would think they were getting a par rate because that’s what the rate sheet said—but they were paying mark up on that rate. Additionally, we would...
not have to disclose that rate mark up on the HUD1 settlement statement because as correspondent lenders we funded the loans in our own name, not the name of the ultimate lender like Countrywide or Washington Mutual.

If you want to be sure you are getting a wholesale rate and want to have proof of that, then you should be working with a wholesale mortgage broker. Ask to see the rate sheet from the actual lender—not the broker’s internal rate sheet. And if the rate is marked up and the broker is collecting yield spread premium, it will be listed on the HUD1 settlement statement. Look around the 800 lines. It will say POC (paid outside of closing) broker premium somewhere around in there if it is being paid to the broker. It will not be listed in the borrower’s or seller’s column but on one of the actual 800 lines.

The Biggest Secret of All—Yield Spread Premium

Yield Spread Premium or YSP is the real secret in mortgage finance. This is the premium that the mortgage lender or bank pays the broker to sell you a higher rate. The higher the rate the broker can sell you, the higher the commission on the “back end” of the deal.

To understand rates and their corresponding price, you must travel back with me to high school math where we learned about bond pricing. Remember par, premium and discount? The rates that lenders offer can be priced at par, premium or discount. Let’s say that the table below is sample pricing for Acme Funding. Acme sends these rate sheets to lenders and brokers all over the country saying “Hey – here’s what our rates are today!”

<table>
<thead>
<tr>
<th>30 Year Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>RATE</td>
</tr>
<tr>
<td>6.000</td>
</tr>
<tr>
<td>6.125</td>
</tr>
<tr>
<td>6.250</td>
</tr>
</tbody>
</table>

What this means is that if I offer a rate of 6.000 to my borrower, then I have to pay a point (1.000) in discount in order to get that rate. On a $200,000 loan that means we’re bringing an extra $2000 to the closing table. If I offer my borrower a rate of 6.125 then it’s a wash. He doesn’t have to bring any extra to the table and I don’t make any extra commission from the lender to sell this rate. This is this PAR rate.

Now, if I can get my borrower to agree to a rate of 6.250 then this is a PREMIUM rate—higher than the going rate—so the lender is paying me a commission of a point (1.000) on the deal. I make $2000 extra commission.

Here’s what a real rate sheet looks like.
You can see in the example above that Homecomings is the lender. Look at the 30 Year Fixed box above and you can see a list of rates offered from 6.375% all the way up to 7.375%. The purple arrow shows you that 6.375, on a 15 day lock, costs .125 in discount. If you wanted this rate today, you would have to pay .125% of the loan amount to get it. On a $200,000 loan that's $250.

If the broker can sell you the 6.625% rate then she can actually make one point (1%) in Yield Spread Premium on this deal.

Now what if you had a broker who was trying to sell you a rate of 7.375? That broker is making 3% in YSP—a whopping $6000 on a $200,000 loan.

YSP is required to be disclosed on the HUD1 settlement statement if the broker you are using is a wholesale broker, meaning they fund the loan in the lender's name, Homecomings Financial, not their own.

If they are a correspondent lender, this means that they actually fund your loan in their own name, Acme Funding, from a line of credit and then they sell the closed loan to the lender. If this is the case, then they DO NOT have to disclose the YSP on the HUD1 settlement statement. You never know at that point how much extra profit they have made by selling you a higher rate. To protect yourself, ask your mortgage broker to show you the rate sheet. They won't want to and they'll probably tell you that it's private, just for internal use, for mortgage professionals only, etc., but if they want to show you they can. There is no law prohibiting it. So, ask and the answer you get will tell you a lot about the broker you're working with and the rate that you're being offered.

Now I want to stress that YSP is not always a bad thing. Sometimes it can actually save you money!
Mortgage brokers have to be compensated for their work so they must be paid somehow. I personally tell all my investor clients that I must make 1% on each loan that I do. It is up to the client to tell me where to get my paycheck—either on the front through origination or on the back through YSP. Sometimes, it is less expensive to pay me with YSP—especially if it is a fix and flip—since it reduces the buyer’s out of pocket costs. If you end up paying .250 more in rate and you’re only keeping the property six months then it’s no big deal and can even increase the profitability on your flip if you finance the origination with YSP. On a $200,000 loan the difference between a payment at 6.000 and 6.250 is only $32.33 a month. For six months you only end up paying $193.98 by financing the origination instead of paying 1% at closing. You save $1806.02!

Sometimes, you can even have the seller pay your broker and I show you how in the case study in the next section.

**Seller Concession Secrets**

May times, in order to entice a buyer to purchase a house, sellers will offer special incentives. These incentives are called “seller concessions” or “seller contributions” and they are essentially using proceeds from the sale to offset closing costs. The size of seller concessions is limited by the lender.

Here’s the Fannie Mae rule about seller contributions:

"**Seller contributions are permitted as long as the total contribution (including buydowns, non-recurring closing costs and prepaids) does not exceed the percentages as indicated below:**"

**Primary Residence and Second Home**

- If LTV is > 90% maximum contribution is 3%
- If LTV is < 90% maximum contribution is 6%
- If LTV is < 75% maximum contribution is 9%

**Investment Property**

- Maximum contribution for all LTV’s is 2%

**NOTE:** Contributions must be calculated based on the CLTV when a mortgage is subject to subordinate financing for purposes of determining whether it complies with the maximum contribution limits.

So you can see that once again investors get the shaft! Just kidding—there are many conventional loan programs that will allow up to 6% seller contributions for investors. Just make sure you know the rule about your specific loan program before you write the offer to ensure you are maximizing the seller contributions on your deal. And remember this is a % of the purchase price—not the loan amount!
But you should also be careful because you don't want to get so much that the lender starts to question the value of the property. If seller concessions go beyond program limits, a lender might think that the house is overpriced. Yes, a house may have “sold” for $100,000, but if the seller had to give up $10,000 in concessions, what's the house really worth, $100,000 or $90,000? A lender would likely say $90,000. In this case, either the buyer must come up with more cash, the owner must lower the sales price, or there must be some combination of concessions.

**Case Study—Seller Paid Origination**

You are making an offer on a duplex that is listed for $180,000. The property has been on the market for a while and you think that the seller will be happy to offer some “concessions” or seller contributions in order to get the deal done. You know that your broker will charge 1% origination or $1800 on this deal if you offer full asking price, so figure your maximum offer and then ask the seller to also kick in $1,800 in closing costs. The seller won’t actually have to give you $1,800 cash; it just gets deducted from his proceeds at the closing table.

Make sure you don’t increase the sales price or your maximum offer in order to get this concession, though, or you are just financing it.

**Interest Rate Buy Down Secrets**

An interest rate buy down is a way to use yield spread or discount points to arrive at a specific interest rate for the life of the loan. The most common buy down is the 2-1 buy down. In the past, for a buyer to secure a 2-1 buy down they would pay 3 points in order to pay a below market interest rate during the first two years of the loan. At the end of the two years they would then pay the old market rate for the remaining term.

For example, if the current market rate for a conforming fixed rate loan is 8.5% at a cost of 1.5 points, the buy down would cost a total of 4.5 points giving the borrower a first year rate of 6.50%, a second year rate of 7.50% and a third through 30th year rate of 8.50% and the cost would be 4.5 points.

In today’s market, lenders have designed variations of the old buy downs. Instead of charging higher points to the buyer in the beginning, they increase the note rate to cover their yields in the later years. For example, if the current rate for a conforming fixed rate loan is 8.50% at a cost of 1.5 points, the buy down would give the buyer a first year rate of 7.25%, a second year rate of 8.25% and a third through 30th year rate of 9.25%, or a three quarter point higher note rate than the current market and the cost would remain at 1.5 points.

Another common buy down is the 3-2-1 buy down which works much like the 2-1 buy down, with the exception of the starting interest rate being 3% below the note rate. Another variation is the flex fixed buy down programs that increase at six month interval rather than annual intervals.
As an example, for a flex fixed jumbo buy down at a cost of 1.5 points, the first six months rate would be 7.50%, the second six months the rate would be 8.00%, the next six months rate would be 8.50%, the next six months rate would be 9.00%, the next six months the rate would be 9.50% and at the 37th month the rate would reach the note rate of 9.875% and would remain there for the remainder of the term. A comparable jumbo 30 year fixed at 1.5 points would be 8.875%.

Buy downs are complicated and I don’t use them much on investor loans but it’s another tool for you to have if the situation warrants.

Rate Lock Secrets

Rates on a loan have to be locked in before you can close the deal. On a rate sheet, rates are quoted with various time frames. For example, going back to our Homecomings rate sheet you can see different pricing for that same 6.625% rate on the 30 year fixed depending on whether we lock it in for 15, 30 or 45 days. The main thing to remember here is that time is money—the longer you lock the more expensive it is. If I lock in that 6.625% rate for 15 days I make 1% in YSP premium. If I lock that same rate for 45 days then I only make .750.

Since rates change often—sometimes even several times a day—choosing just the right time to lock in a rate is important. I remember working at the mortgage company in Secondary Marketing during the refinance boom of 2000-2001. The securities traders would tell us just the right time to lock in our rates on our own refinances. They didn’t tell the customers that—just the employees! It was great having my own private insider.

The rates that are the most volatile are the agency fixed and ARM rates. Since investors usually are using non-conforming and sometimes even sub-prime programs, we don’t have to worry as much since these
rates don’t change as often. Still, I will pay attention to the monthly economic indicators as they are released and make sure I have all the loans in my pipeline locked before the Fed raises interest rates again. The point here is that if you are using an agency program to finance any of your properties, investment or otherwise, make sure to work with your broker to lock in a rate at the appropriate time.

If for some reason your loan is not closed by the rate lock date deadline, then you will either have to re-lock at a higher (market prevailing) rate or extend the lock for a few days for a fee. Either way, if you miss your deadline you pay so make sure you have enough time to close the loan by the deadline.

## Secrets of the Good Faith Estimate

The Good Faith Estimate is a disclosure document that you sign to give you an ESTIMATE of the fees associated with your loan. It will also show closing costs, insurance and tax reserves, your estimated monthly loan payment and the amount you will need to bring to or get back at closing. Folks, the Good Faith Estimate is just that—an estimate. We lenders do the best we can to get as close to the real figures but sometimes we are off. I figure if I am within a $100 or so then I’ve nailed it.

Sometimes things happen that are beyond our control—like a loan payoff coming in higher than expected or a delayed closing that has us ponying up a full month of interest. Believe me, as a broker I hate surprises just as much as my clients do.

The main sections of the GFE are Items Payable in Connection With Loan (Section 800), Items Required by Lender to be Paid in Advance (Section 900), Reserves Deposited with Lender (Section 1000), Title Charges (Section 1100), Government Recording & Transfer Charges (Section 1200), Additional Settlement Charges (Section 1300) and Total Estimated Funds/Payment. You should note that the GFE looks a lot like the actual HUD1 settlement statement you will get at closing.

The line items contained in section 800, Items Payable In Connection With Loan are usually the ones that should get scrutinized the most carefully. The section numbers can change based on the loan origination software your broker is using but you get the idea.

### 801: Loan Origination Fee

This is the point(s) you pay a lender to originate your loan. I usually charge one point on each loan I do. If I am getting my point in yield spread premium this line will show 0.00.

### 802: Loan Discount

This shows any discount points you have to pay to buy the rate down.

### 803: Appraisal Fee

This fee is the charge for the appraisal. If you have already paid for the appraisal outside of closing (POC) then this will show 0.00.
804: Credit Report:
This is the fee that the lender is passing on to you for the credit report(s) he had to pull. At the time of this writing in Colorado (it can vary by state) the cost for a single applicant tri-merge through Equifax is $11.83 and a joint report is $19.86. Watch for mark up here.

805: Lender’s Inspection Fee
This is charged sometimes if a lender has a requirement to inspect a property prior to closing. It isn’t used much.

806: Mortgage Insurance Application Fee
If you have MI on your loan there could be a fee here. If you have a loan below 80% LTV or a combo loan (80/20) to avoid MI obviously this should be 0.00.

807: Assumption Fee
If you are assuming an existing loan there could be a fee here of usually 1%.

808: Mortgage Broker Fee
This is the fee you pay to a mortgage broker to originate your loan. Sometimes if I am brokering a private loan and that private lender charges an origination fee then I will put my broker point here. Usually the lenders do not charge origination in conventional residential transactions so my point just goes in the Loan Origination Fee line item and this shows 0.00.

809: Tax Related Service Fee
Lender fee, usually small, for handling tax related matters.

810: Processing Fee
This is the charge for processing the loan – collecting your application, running credit, collecting pay stubs, bank statements, ordering appraisal, title, etc.

811: Underwriting Fee
Lender fee that pays for the underwriter to approve and issue conditions on your loan.

812: Wire Transfer Fee
The fee charged, usually by escrow, for wiring money around.

813: Lenders Rate Lock In Fee
This is a fee charged by the lender for locking in your loan. Brokers are never charged a fee to lock in a loan with a lender so watch this.

814: Application Fee
Some brokers and lenders charge an application fee. I personally do not charge an application fee and would refuse to pay one to apply for a conventional mortgage unless it was going to be credited to me at closing. On commercial and some private money applications, though, it is a requirement.
Make sure you scrutinize your good faith estimate carefully and ask questions. An honest broker will be happy to answer and even negotiate any fees that are negotiable.

**Appraisal Secrets—It’s All in the Approach**

An appraisal is an opinion of value or the act or process of estimating value. This opinion or estimate is derived by using three common approaches, all derived from the market.

- The cost approach to determining value is to estimate what it would cost to replace or reproduce the improvements as of the date of the appraisal, less the physical deterioration, the functional obsolescence and the economic obsolescence. The remainder is added to the land value.

- The comparison approach to determining value makes use of other “benchmark” properties of similar size, quality and location that have been recently sold. A comparison is made to the subject property. This is the most common approach.

- The income approach to determining value is of primary importance in ascertaining the value of income producing properties and has little weight in residential properties. This approach provides an objective estimate of what a prudent investor would pay based upon the net income the property produces.

Then, after thorough analysis of all general and specific data gathered from the market, a final estimate or opinion of value is given.

**Secrets of As-Is vs. Subject-To**

This is an important distinction for real estate investors. “Subject To” in an appraisal sense means that the property is worth “x” amount subject to certain things being done.

The term “subject-to” can be used interchangeably with “as-repaired”. The conventional rule of lending states that the lender will make a loan for the LESSER OF the purchase price or the appraised value. Many investors come to me with their bank-owned and foreclosure deals and expect a conventional lender to loan on the value of the house. They are excited because they are getting the property for significantly less than it’s “subject-to” value. I have to be the one to burst their bubble and drop the “lesser of” rule on them. Here’s an example of a bank owned scenario that I see often:

- Purchase Price: $125,000
- As-is Value: $125,000
- As-repaired value: $200,000
- Max loan amount is the lesser of the purchase price ($125,000) or the appraised value ($200,000.)
This is the benefit of using a rehab loan or private money loan. These loans, like traditional construction loans, will loan on the subject-to or as-repaired value. The lesser rule doesn’t bind us in the case and can go as high 80% of the subject-to or as-repaired value. Same example:

- Purchase Price: $125,000
- As-is Value: $125,000
- As-repaired value: $200,000
- Max loan amount is 80% of the appraised value ($200,000) or $160,000.

In this case you should have enough to roll in your closing costs and fund the repairs. Sweet! The bottom line is that “Subject-To” items need to be completed in order to give the property full value.

**No Appraisal Loan Secrets**

Occasionally, there are lenders that will approve a loan and NOT require you to get an appraisal. This most often happens for two reasons:

1. You are refinancing at a low LTV and the value that you have stated is equal to the assessed value or,

2. You are getting a 2nd mortgage or a home equity line of credit and the lender is just running an automated valuation model (aka as a desktop appraisal or AVM) that verifies your stated value. It doesn’t happen a lot but sometimes you’ll get lucky!

**Deferred Maintenance—This SHOULD be a Secret!**

*What is Deferred Maintenance? First, it just means that something was supposed to be fixed in the property and the owner put it off. And in real estate terms it also means that since required maintenance was neglected, it’s affected the value of your property. Maintenance was deferred and for lenders it is an issue.*

Deferred Maintenance usually means something more than just cosmetic issues. It means big stuff like the roof needs replacing or the electrical system doesn’t work. Or, it could mean the existence of a bad foundation. It means bad stuff—stuff that needs to be fixed before any real value can be placed on the property.

Let’s say that you are making an offer on a house that might have foundation problems due to some visible cracks both inside and outside the home. You hire an inspector and sure enough, the foundation has problems and it will cost about $7,500 to fix. Many sellers usually prefer to reduce the sales price
by $7500 instead of fixing it. That might be okay if you, the buyer, are paying cash for the property. But it won't work if the appraisal states that there is $7500 worth of deferred maintenance and you need financing. Lenders won’t lend on property with deferred maintenance until it is fixed.

Sometimes you may get lucky and have a lender that has a threshold tolerance. I had an appraisal for one of my clients come back with about $1500 in deferred maintenance one time and the underwriter approved it because it was less than $2000.

Loan Processing Secrets

Processing is another big mystery of mortgage financing. Most lending institutions charge a processing fee. I charge $450.00 and sometimes borrowers will ask me to waive the fee calling it a junk fee. I never waive the processing fee because I pay a professional loan processor to process my files. The broker and the processor work together closely to get a file to closing. As a broker, it is my responsibility to get business, or loan origination, through marketing and referrals. Once I have originated the loan, it’s my responsibility to consult with my clients by helping them select the right loan products for their needs.

My client and I usually go over the transaction itself figuring out what the goal is both for acquisition and exit. That will help me narrow down the loan programs and features. Next, I’ll set the loan file up in my origination software and I’ll price out the deal with lots of different investors or lenders and I will decide where to send the loan based on the best pricing and terms available. Once I have priced out the loan, I forward a good faith estimate to my client and at that point I’ll electronically turn the whole file over to my processor, letting him know the rate we agreed on with the client and the designated lender for this file.

The first thing the processor does is make sure I haven’t made any mistakes. He’ll check my calculations for DTI, make sure we have all properties listed properly in the REO section of the application and if it all looks good, he’ll generate all of the application documents and disclosures. These are the papers you need to sign to begin the loan process. The required disclosures for us are:

- Good faith estimate (GFE)
- Truth in lending (TIL)
- Borrowers signature authorization
- Borrowers certification and authorization
- Federal disclosure notices
- Equal credit opportunity act

Quick Secret No. 7

Make sure there is no deferred maintenance listed on the appraisal. Lenders hate this! If your appraiser is going to address it at all, just say that there are cosmetic improvements that need to be made.
You can see samples of all of these disclosures in the appendix. While these application and loan documents are out to the client for signatures, the processor will begin working on the file immediately. What they typically do is order a preliminary title commitment, the appraisal and evidence of insurance from your hazard insurance carrier (you don't have to actually pay that policy in advance, but we have to have a paper in the file saying that you will have coverage for the property once it closes).

In addition to the application documents and disclosures, the processor will also need the income and asset verification documents such as W2's, bank statements, pay stubs and business licenses. Once all this documentation is in, the processor will put the loan file together in a certain order requested by the lender; this is called the stacking order. You can imagine sometimes the loan files are very thick, especially when we include taxes. Underwriters don't want to waste time digging through a messy file looking for documents. Unfortunately the mortgage industry is not one of those industries that have gone paperless. I look forward to that day and hope that I can figure out my scanner by then. In the meantime, we will have to deliver the physical loan package via courier or FedEx. We have a few lenders that allow us to submit files via fax and even one that will allow document uploads via website, but they are the exception—not the norm.

Once we send the file to the lender, there is another person on their side who will take that loan file and input pertinent data about that loan into the software system they use for processing. This is called “logging in a loan” or “loan setup”. It takes about 24 hours for this initial process. Next, the file goes to the underwriter. It is the underwriter’s job to make sure our loan file submission conforms to the loan program's set written guidelines. These guidelines are set by the agency like Fannie Mae or Freddie Mac, or by whatever ultimate conduit or correspondent lender they will be selling this loan off to in the secondary markets.

There are written guidelines about loans that dictate what is acceptable and what is not acceptable. I’ve included a set of Fannie Mae Conforming Fixed guidelines in the appendix so you can get a sense of what the underwriter deals with. It is the underwriter’s responsibility at the lender to actually take the information about you and your deal and match it up against those guidelines. For example, if we have chosen a loan program that has a maximum loan to value of 80% they’ll want to make sure that our deal doesn’t have a loan to value of 90%. They will also look at your income and if this particular loan program that we are asking for has a maximum debt to income ratio of 50%, you don’t want to submit a loan that has a debt to income ratio of 54% because it will get declined.
Underwriting on the lender’s side usually takes anywhere from 24 hours, if it is the beginning of the month and they aren’t busy, to 3-5 days if it is a busy lender or it is toward the end of the month. They will generate what is called a conditional loan authorization and it will have a list of conditions or stipulations that they will fax to our processor. This is all the extra work they will need to do on your loan file in order to get that file to closing. Here are some typical conditions from an actual conditional loan approval that came from an underwriter to us recently (you can also see an actual approval notice in the appendix).

- 65-003: full appraisal with income approach completed subject to review. Review ordered 11-02-2006 estimated return time is 3 days.
- 65-007: borrower to sign and date 4506T. Lender to execute must receive results back prior to funding.
- 66-115: final 1003 to send to closing for signatures.
- 66-158: verbal VOE with employer verified through directory.
- 66-432: flood certification required - lender to provide.
- 66-001 cash to close not to exceed $1692.00 or additional assets must be verified. Currently $8959.00 verified.

The underwriter will usually sign this and fax it to the processor. When the processor gets this conditional loan approval, the first thing they do is quickly review it to make sure it isn’t a denial notice. If it is not a denial, then this is essentially a conditional loan approval that is saying your loan is approved subject to the following conditions being satisfied or you providing us additional documentation to clear these stipulations.

Now it becomes the processor’s responsibility to obtain additional documentation from the borrower to clear all of the conditions/stipulations. For example, on condition 65-007 the processor will generate a 4506T, which is a request for tax transcripts, and will email it or fax it to you, get you to sign it and fax it back because they will need to send that in to the lender. When they say they must receive results back prior to funding, it means that the lender will actually order a copy of your tax transcripts and will verify that the income we disclosed on the application or W2 for the prior year matches up to what was actually filed with taxes. If there are any issues with regard to the borrower reporting something that isn’t completely accurate, that will give us a “heads up” that we need to start looking for another lender because if these don’t match the deal will not fly with this lender.

Condition 65-003, full appraisal with income approach completed subject to review, means that the lender will order a review appraisal. Lenders usually have appraisers on staff to actually take a look at the appraisals we send in just to make sure everything is on the up and up and that the value is there. Sometimes they will run a desktop appraisal which is also known as an automated valuation model or AVM and if the value comes back OK they will sign off on it.
Occasionally, if the value doesn’t come back, they will actually pull sales comparables themselves through the MLS system or they will go visit the property. That is why it can take up to three (3) days to clear a review appraisal condition. This is a big drag when you are trying to close something fast. On high LTV investor loans this happens quite often. The verbal verification of employment (VOE) is something the lender will do, so don’t quit your job before the loan closes! Don’t laugh – it’s happened before. The flood certification is something the lender will order. All it does is verify that your property is not in a flood zone.

On this deal, the processor needs to take a good look at the good faith estimate to make sure that all of the fees are accurate and our cash to close doesn’t exceed that $1692 figure. If it does, we need to make sure you have additional verifiable assets in order to get us enough verifiable cash to close.

So, this is, in a nutshell, what a processor does. This list of conditions is actually very small. I have seen conditions before on high LTV non-owner occupied deals where there are sometimes up to 15 conditions that need to be cleared and it requires the processor to do a lot of detailed work and coordination to obtain documents and additional signatures; even fighting sometimes with underwriters in order to get your loan closed. The loan processor does a great deal of work on your behalf in working with the underwriters to get your loan through to closing. That is why there is a fee associated with it and why very few people will waive that fee (or they’ll say they will but hide it somewhere else) because somebody has to do it.

Loan Underwriting Secrets

Now let’s talk a little bit more in depth about what an underwriter does on the lender’s side. It’s not very politically correct, but I look at the underwriter as our enemy. They are the only thing that stands between us and the money! Sometimes it seems like the underwriter’s job is to look at the information we have given them and pick it apart in any way that they can to try to uncover any untruth that they can. That isn’t their actual job description (at least I don’t THINK it’s the actual one) but sometimes when we are on the other side of it, it sure feels as though they will grasp at anything they can in order to deny our loan or make us provide ridiculous documentation.

Underwriters have to be very knowledgeable about literally hundreds of loan programs especially if they work for a big lender who is doing a lot of volume and selling a lot of loan products to the agencies and whole loan buyers. As real estate investors we are hoping that the lender we are working with, who is offering these great investor programs, has an underwriter that is very well versed in these programs and knows exactly what their ultimate investor guidelines will and won’t allow so we have a better opportunity of closing our loan with the lender quickly.

I hate it when I get a conditional loan approval back and I can tell the underwriting has been outsourced or they have someone that isn’t familiar with loan programs because they will have outrageous conditions
that really don’t even apply to our deal. I always like to go back to my account executive and say “how can we get this thing closed satisfactorily when you guys have outsourced your underwriting and I am not even sure these files are being underwritten appropriately?”

What we like to see, as I said, is an underwriter who is very knowledgeable with these loan programs and who can underwrite a file quickly. We also like to see underwriters who are accessible. There are some lenders (and I don’t work with lenders like this) who don’t allow their underwriters to take incoming phone calls. They won’t even disclose the underwriter’s phone number because brokers like me will be calling them and hounding them about deals. “Why don’t I have my underwriting approval yet?” “Why don’t I have my figures to close yet?” “Why did you put this condition on my file?” and they don’t want to deal with that because their main job is to underwrite the file. When you get a really good underwriter that is willing to work with you, that is the underwriter you want to keep working with and sending your business to.

I had a situation recently come up when I sent a file to an underwriter. I had miscalculated some net rental income losses and I did not factor that in appropriately when I was stating the income for my borrower, so the file as submitted actually should have been declined because the debt to income ratio was over the maximum. This is an underwriter, luckily, that I have a great relationship with and she actually called and alerted me to the problem. She said “by my calculation you need to increase the income by $600 in order to make this come in below the DTI maximum and if you want me to approve it, all you have to do is change it on your loan application and send me a new 1003.”

That is unheard of for an underwriter to do. I am not going to mention the name of the lender because I am sure they don’t want to advertise that their underwriters are increasing incomes to cover DTI issues on investor deals that come through the door. Just know that a good underwriter is really worth their weight in gold!

The underwriter also acts as kind of a coordinator on the side of the lender when they are ordering the review appraisals that we mentioned earlier in the processing section. The underwriter is also the one that will actually call and do the Verification of Employment (VOE). They will speak to your supervisor or manager if you are a W2 wage earner, or they will actually look on the Secretary of State’s website to see if you do in fact have a business license for the business you say your are employed by and they like to see you have been in business for at least 2 years.

If we provide a CPA letter, sometimes they will also contact your CPA directly and ask them to provide them a CPA certification saying “yes I did write the letter and I have done the taxes and this is the business name, etc.” They’re also the ones that ultimately sign off on the file after all of the conditions have been satisfied and give us the final clear to close.

At that point, they will transfer the file internally to their closing department. The underwriter on the deal is not going to be the person that will send the figures to title. When you have your realtor
screaming, “Why don't we have our figures yet?” those figures actually come from the lender's closer. The closer has a completely different job description. They really don't have much to do with us. Basically their job is to check over the file as it comes from the underwriter and to then input all of the actual numbers into a system that generates the loan packages that get electronically transmitted to your closer at the title agency. Are you confused yet? Or did you just say, “Geez, how many closers does it take?” Trust me, I've asked the same thing many times.

Title Insurance Secrets

Before answering “What is title insurance?,” it might be best to first answer “What is title?”

“Title” is the ownership in real property. Among other things, it means that you have the legal right to possess, occupy, enjoy and sell your property without interference from others. In most cases, title is transferred by deed, which is recorded in the property records of the county, in which the property is located.

When a title insurance order is placed, the title examiner goes to the record room and searches the land records for any title defects. A title defect is anything in the entire history of ownership of real estate which may get in the way of the owner's rights under the title. A title defect may cause the owner of real property to lose all or part of his land to a superior ownership interest or claim of another. This is the type of loss against which title insurance protects. In short, if you own a title insurance policy, the title insurance company will defend you, without cost, against a claim against your ownership interest in your property and you will be protected against financial loss caused by a title defect.

The title insurance premium is paid one time (at closing) and coverage extends to you for as long as you own the property and even thereafter in some cases.

There are two different types of policies that you'll have when you buy a property – an owner's policy and a lender's policy and it's really only the lender's policy that is required when you have a mortgage. The lender's policy protects the lender up to the amount of the mortgage, but it doesn't protect your equity in the property. For that you need an owner's title policy for the full value of the home. In many areas, sellers pay for owner policies as part of their obligation to deliver good title to the buyer. In other areas, borrowers must buy it as an add-on to the lender policy. It is advisable to do this because the additional cost above the cost of the lender policy is relatively small.

If you are buying a property with the intent of flipping it within a year, ask the title insurance company for a “hold-open” policy. For an additional fee (usually an additional 10% on the policy), the title company will hold a title commitment open for a year. Since the seller usually pays for title insurance, you can pay the additional 10% when you buy, saving 90% on title insurance when you sell.
My favorite title officer came for a visit a few weeks ago and I asked her to share with me some of the things that investors should watch out for. This was a real stroll down memory lane since most of these issues came up in MY deals!

First, the most difficult thing to deal with is minors in title. Please don’t ever put minors in title. And if you are buying a property and discover there are minors in title you will not, I repeat WILL NOT have an easy time closing the loan. It will be a long process that will usually involve going to court, appointing a custodian and finally having the court approve the conveyance of the title or deed. I encountered it on a deal and it took forever to close. Especially since the minors (5 kids) were in a different state than the property.

The other things to look out for with regard to title are judgements or liens that must be cleared. All that stuff must be paid off before you can get clear title and if the seller has not disclosed those costs to you or made arrangements to pay them, your great deal may turn out to be not so great.

Next up are boundary line issues and questionable access. The lender may require a survey if there are boundary issues. Questionable access is stuff like having to cut through someone else’s property to get to your property.

**Cash Back At Closing Secrets**

Ahh, the elusive cash back at closing. It seems like every real estate investment “guru” with a seminar preaches that this is easy as pie and you can get cash at the closing table on every house you buy. Well, in the real world, that’s not really true. Conventional lenders tell us that on purchases and rate and term refinances (no cash out) the buyer is usually limited to a maximum of 1% of the loan amount or $2000 (whichever is less) in cash back at the closing table.

I have only seen numbers exceed this limit on conventional (not hard money) deals when buying a multi-unit and the rent and deposit credits come back to you at closing in the form of cash, if you have a lease-back situation and the lessee is prepaying rent or if the seller has given the buyer a repair escrow. Not to say that it can’t be done in other ways, you just have to structure it according to the rules of the lender.

**Double Close Secrets**

Double closes are another strategy that investment gurus will tell you about. In theory, they are great but they are difficult to pull off with a conventional lender. The most common scenario for a double close occurs when Investor A gets a property under contract and wants to sell it or flip it to Investor B without actually having to close on the property himself. He is using your funding or the end loan to cover his acquisition as well.
I usually advise if you are Investor A to make sure that your purchase contract is assignable and to just assign it to Investor B for a fee. You can even have this paid out at closing and listed on the HUD1 settlement statement as a consulting fee.

If you are Investor B in this situation and the contract cannot be assigned (HUD foreclosures do not allow this, for example) then you must use hard money or cash to close the deal.

The problem for the lender is a rather simple one and has to do with the title to the property. Quite simply, the seller cannot sell a property he legally does not own. What happens is the underwriter on the financing for Investor B will not issue a clear to close until they get a title commitment saying that the seller, Investor A, is the owner of record. Title will never issue that because Investor A is NOT the seller of record. You'll get stuck in a big catch-22. Trust me, I've been there literally begging before for an exception and it just won't happen.

Sometimes even if you use hard money or cash, the title company will freak out because they do not understand the concept. Make sure the title company you choose for these types of transactions knows what you are doing before you get to the closing table or there could be problems.

**Cross Collateralization Secrets**

Cross collateralization is a financing technique that has been widely used with private, hard and very creative lenders. The basic definition is when collateral for one loan is also serving as collateral for other loans. It is a tool that lenders use to reduce the risk of a loan or often allow you to borrow more in a transaction.

I was working with an investor client that wanted to buy a triplex for 85% of the as-repaired value. Because the private money lender only allowed a max of 80% of the ARV, she had to come up with 5% into the transaction. Well, she didn't have enough cash but she did own another property free and clear. The lender took a position in that property as well as the subject property and made the loan. To make this work you do not have to own the property free and clear but you do need to have an equity position big enough to satisfy the lender and mitigate the risk.
Secret to Financing Foreclosures

As real estate investors we like to seek out the best deals possible. Foreclosures are a great way to find undervalued assets. However, financing them sometimes can be tough. Now, I live in Colorado and it’s hard enough to keep up with my own state’s foreclosure laws let alone 49 others so for the purpose of this example, I’m speaking about Colorado only.

If a homeowner receives a notice of default on their primary residence and they want to refinance, this loan is called a foreclosure bailout loan and the sub-prime lenders that make them usually will only loan up to 65% LTV.

In Colorado, even after the foreclosure has happened, there is a redemption period that allows for the homeowner to cure the default when he wins the lottery or kills a relative for the insurance money. Sometimes real estate investors are taught to have that homeowner assign his redemption rights so the investor can buy the house out of foreclosure. Sounds great, right? Wrong. Guess what? The lender considers this a foreclosure bailout too and will only lend 65% on the purchase.

I had a client come to me with assigned redemption rights and they were selling the house to their relatives. The relatives had stellar credit and could even put down 20% but the bank would not loan more than 65%. So, we had to buy the house with private money and then refinance after the title had vested in their name. If you are planning to invest in properties in any stage of foreclosure, check with a broker to arrange financing in advance. Just in case.

The Secret to Buying in the Name of Your LLC

Most real estate investment “gurus” preach the benefits of forming a business entity to conduct your investment activities. While I am wholeheartedly in favor of this, I also know it can wreak havoc with conventional financing. The first problem you will encounter is that the borrowing entity must have an established credit profile. If this is a new business, say a limited liability company (LLC), then it’s a pretty safe bet that it does not have an established credit profile or any assets (collateral) with which to qualify for a loan.

The other problem is that there are only a few conventional lenders who will loan to an LLC and the maximum loan to value is 70-80%. That means that your LLC will have to pony up a 20 – 30% down payment. If you have the ability to do this, then go for it! If you’re looking for less of a down payment or no down payment at all, then you will have to buy in your personal name and guarantee the loan.

Many investors I know will purchase a property in their own name and after closing, quit claim it into their entity. This is a great way to take advantage of the asset protection that your LLC offers. Just make
sure that you are in the loan you want to be in before you do this. Currently there are some lenders, all Freddie Mac lenders for example, that will order a chain of title on the property and automatically deny your loan if you have ever had it titled in an entity. Sounds crazy, I know, but it happens a lot and it’s all because of the portfolio risk. My account manager told me that the default rate is much higher for investment properties titled in an entity than in a personal name.

One other thing to pay close attention to is quit claiming your property into your LLC. I recently did a purchase loan for one of my clients using one of his other properties as collateral (cross-collateralization) and he had previously made a mistake on the legal description when he quit claimed the property to his LLC. This resulted in a defect in the title. Because the title had a defect, he was unable to obtain title insurance on that property until the defect was rectified. This problem caused a delay in closing that almost made him lose his deal on the subject property! Pay attention to the details if you’re doing this stuff yourself. When in doubt—always use a legal professional.

**Non Recourse Loan Secrets**

A non recourse loan is one that limits the recourse that a lender has in case of a default. It essentially means that if you quit paying, they can seize the asset but cannot sue to recover additional compensation from your personal assets. Non recourse loans are usually only available on commercial deals with loan amounts in the millions but they are available to real estate investors who are purchasing real estate in their self directed IRA. I only know of one company that makes residential non recourse loans because they are a lot of risk for not much return.

Most banks will NOT lend money to purchase real estate through an IRA, because they cannot obtain that personal guarantee from the borrower. The only ‘recourse’ the bank has to satisfy the mortgage debt incurred by the IRA is the property and the rental revenue that the property generates.

If you do not have enough in your self directed IRA to pay cash for a property then the only option you have (other than partnering with another SDIRA) is a non recourse loan. Expect to put down at least 30% plus your IRA has to have about 10% of the loan amount in reserves. And I’ve found it’s easiest to finance single family homes—the requirements for condos are too strict. For more information on setting up a self directed IRA or obtaining a non recourse loan visit the Bonus Offers section at [http://www.mortgagesecretsbook.com/Bonus](http://www.mortgagesecretsbook.com/Bonus).
100% Loan Secrets

No money down! This is the mantra of every real estate guru. Using other people's money to finance investor's dreams is how real estate empires have been built for years. It's all about leverage…Borrow your way to riches…you get the idea.

As a real estate investor the goal is to acquire properties with as little cash out of pocket as possible. For lenders, the less money you have invested into a property i.e. skin in the game, the riskier the loan is so it is a double edged sword. I want to stress a very important concept: 100% financing does not mean no money down. And now, since the great mortgage meltdown of 2007, we have to be even more creative since the max LTV on most conventional loans is 85%.

Even though the max loan to value on conventional investor loans is 90% these days, there are ways to limit the amount of cash you have to bring to closing such as asking for the seller to carry back a 2nd mortgage or asking the seller for concessions of 2-3% to cover closing costs. And as for the rehab, the most popular way to get that done is to partner with your contractor. Ask him to do the work in exchange for a percentage of the profits when you sell. Or ask him to defer his fee until you sell the property. However you decide to cap your costs is up to you. You may have to give up some profits but it’s like a mentor of mine always says, “you can’t be broke AND greedy.” If you use a private loan or a hard money loan, there are some still available at 100%. Just not from conventional lenders.

The MLS Listed Refinance Secret

One of the biggest (and most expensive) mistakes I see investors make is listing a property for sale before they have put it into permanent financing. Many of the investors I work with use hard money to purchase fix and flips. These loans are pretty expensive—usually 4+ points origination, 15% interest rates and usually very short terms—like six months. Everybody likes to think that their house will sell quickly and maybe it will. But then again, maybe it won’t. If you think that you are going to take longer than the six months to finish the work on the house and get it sold and/or you just want to reduce your monthly holding costs by half then you probably want to do a rate and term refinance against the current appraised value to get it out of that 15% loan and into something much cheaper.

There are a ton of conventional lenders that will do this “un-seasoned” deal against the current appraised value but they almost

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all have a rule that says if the property is listed for sale currently OR within the last six months, then it is an automatic denial!

I can’t tell you how often I get calls from investors who have houses that are listed for sale and they decide to refinance for whatever reason. If only they had called me before they listed the property for sale, we could have had so many more options!

Say there is a pool of 50 lenders that do unseasoned rate and term refinances against the current appraised value. Well, once they find out it is or has recently been listed for sale, the pool of lenders that will do the deal shrinks to about four or five. AND you will pay a substantially higher rate and almost always get stuck with a prepayment penalty which defeats the purpose of the refinance—to save money. Always, always, always refinance first THEN put the place on the market.

**The Vacant Property Refinance Secret**

Vacant investment properties are another tough deal to get refinanced. Most everyone needs the income generated from a property to offset the expense each month. Not many of us can absorb a $1500 or so monthly payment into our existing debt load without blowing our debt to income ratio sky high.

I can hear you asking now—how will the lender know the property is vacant? Well, the minute they look at the appraisal and see the box checked next to “vacant” and see the interior pictures (if required) showing an invisible family living there with invisible furniture they will know.

**Hazard Insurance Secrets**

This is something that your lender will require you obtain prior to closing. The cost for the policy can be paid at closing but you’ll need to have a binder in place in order to close. All you have to do is give your mortgage broker the name and fax number of your insurance broker. They will have the insurance broker add the appropriate loss payee or mortgagee clause for your lender and they will be responsible for obtaining the evidence of insurance (EOI) that will be included in your loan package. It pays to shop around and this is especially true for investors. Some insurance companies will have a problem with a short term policy and the fact that your fix and flip will be vacant during construction. Six month rehab policies are available. Get a referral for an insurance broker that is used to working with investors and has the appropriate products. This is one case where your current homeowner’s insurance agent may not be the best choice.
Case Studies

Case Study #1

The Greedy Fraudster

When I was a brand new broker I had a guy come to my office one day. He was from a foreign country (with a James Bond accent) and was very distinguished. He told me his business plan was to do fix and flips. He wanted to acquire properties using a pretty aggressive loan program that I developed with a local portfolio lender where they would loan up to 80% of the as repaired value of the house and give cash back right at the closing table to perform their repairs.

The guy had good credit and about $100,000 in a 401k plan that he actually moved into a cash management account so he had access to it if he needed it. He quit his job as a software consultant in order to flip houses in Denver, CO. With the loan program I mentioned, he was acquiring about one house a month.

The first problem I noticed was that the deals that were coming across my desk weren't that great. They didn't have that much margin in them. Typically when I look for a fixer my rule of thumb, or my max allowable offer, will be the assessed value of the house (some people say the as repaired value) minus the cost to repair. Then 75% of that figure is my maximum offer.

This guy was making offers that included the repair money and, in my opinion, over paying for the properties. In addition to that, he was over improving the properties. He got a $45,000 condo under contract and did some cosmetic improvements. He put in a new kitchen with granite countertops for this very little kitchen. He also mounted a big screen plasma TV on the living room wall.

I don't know if you have seen that commercial on TV where the people are sitting in a tiny living room on a tiny couch looking at this TV that covers the entire wall but that is what it looked like. I couldn't imagine being in that tiny room with that huge TV – it was actually scary!

He over improved that property and had a hard time selling it because nobody wanted to pay the extra money for the improvements he made. People who purchase a $50,000 condo typically don't need granite countertops and 50” TVs that are bolted to the wall.

Long story short, he ended up having to rob Peter to pay Paul. And here's where it gets really bad. In addition to the loans I was acquiring for him (at 80% of FUTURE value, remember), he was also getting private money second mortgages on each of his properties in order to fund these repairs or to fund the holding costs of other properties.

One of these victims happened to be me. I made him a loan against a house he had acquired. It was a second mortgage for a substantial amount and he assured me it would be paid off when he
sold the property or refinanced it. He actually had the property under contract when he asked me for this money. By the time I recorded the deed of trust, the title company had already done their check (30 days prior to closing) for the liens that were against the property. The title company missed my lien on the property which was filed about a week before closing and my lien did not get paid out of closing. I had to bring a lawsuit against the borrower, the new owners of the house, and the title insurance company in order to get my money back. When the title insurance offered to settle for 10% of the principle balance of the note, I knew I was in big trouble. Luckily I have a good attorney and we were able to settle with the title company and with the new owners. What a mess! The investor ended up going bankrupt and I think he was reported to the attorney general in Colorado because I wasn't the only one that was taken in this scam of borrowing money against houses that really didn't have any equity in the first place to pay holding costs and repairs on other houses.

One interesting side note regarding the investor’s bankruptcy. If the investor had actually done the right thing and paid me back himself, I would have been required to RETURN the money to the court when he filed bankruptcy. I was able to disregard the demand from the court because I was able to prove that I was paid from people other than the investor. Remember this if you are making private loans or buying notes!

Case Study #2

The Zoning Issue

I had a client that got a great deal on a 3 unit house in Littleton, Colorado, a southern suburb of Denver. We closed on the deal with hard money and one funky thing came up on the appraisal. The house was zoned as a single family residence and not as a 3 unit or multi unit. The appraiser called the city zoning commission and the commissioner said that the property had been grandfathered into the new zoning (multi-units) because it had been in its current configuration since 1969. So, that was good enough for the hard money lender to lend the money.

What we didn’t know was that explanation was not going to be good enough for the conventional lender when we went to refinance that property out of the hard money because she was going to keep it long term. The conventional lender said no problem with the grandfathered zoning. All we need from the zoning commissioner is a letter stating that if it the structure burns down that they can rebuild it as-is without any rezoning to a multi-unit. The commissioner said there was no way they would give me that letter. He said that if the house burned down, she would have to rebuild as a single family residence or have it rezoned. Needless to say it was rejected by every single lender that we took it to on that basis. We were desperate. She was paying very high holding costs on the hard money loan and I felt like an idiot because I had no idea this was going to be an issue with the conventional lender.

Ultimately, we were able to find one niche specialty lender in New York that did the deal for a pretty good rate although he did charge 2 points in fees. We had equity in the property because she put
improvements in it, and it had tenants and cash flow but when we were able to refinance it, we were able to roll all the costs into the new loan and she was able to cut her holding costs into half. I don't know what will happen if she ever tries to sell it or refinance, because the new borrowers will be in the same boat that she was in. Let that be a lesson! Make sure that if there is a zoning problem with your property that you are able to get a rebuild letter because that will be the key to your financing.

Case Study #3

The Foreclosure Bailout

I had a couple that was referred to me who wanted to buy an owner occupied house. I don't normally do owner occupied deals but occasionally I take them on referral from my investor clients. This couple had a house under contract that was in foreclosure. They decided they wanted to go with 90% percent financing and put 10% down. They had excellent credit and tons of assets and they were relocating from New Mexico to Colorado.

I didn't think it would be a problem at all so I started shopping for the loan. Imagine my surprise when all the lenders said they would only be able to finance 65% of the purchase price because technically it is a foreclosure bail out loan. In Colorado, the foreclosure property has to go through the foreclosure process all the way through the redemption period in order for the lender to feel comfortable putting regular financing on it. (In this case the bank had not agreed to a short sale—the owner had just assigned their redemption rights).

The reason why lenders are only willing to go 65% LTV is because they are afraid that the owner will somehow find a way to redeem and their loan will be in jeopardy. Because my borrowers did not have 35% to put down, we were able to arrange a private money loan. I have a private investor that has funds in his self directed IRA that he makes available to me just for special deals like this. (He makes a great return and the deals are very secure. If you're interested in investing please see http://www.performanceequity.net or call the office at 1-866-534-7078.)

It was a very short term deal and essentially what we wanted to accomplish with the private money was to stop all foreclosure proceedings and to get my clients on as legal owners of record. After we closed, my clients fixed up the house and we did an unseasoned rate and term refinance at 80% of the NEW value rolling in all the costs and getting them a few thousand back at closing to recoup some expenses.

Unfortunately they had to pay double closing costs, but it was a way for them to get around having to put 35% down and paying a higher rate due to the foreclosure bail out.
Case Study #4

Refinancing the Unseasoned, Recently Listed Investment Property

This is the most common request I get from my fix & flip clients, especially those that have houses that are on the market that are not moving that were purchased with hard money. They want to refinance these houses and put them into regular conventional financing to reduce their holding costs since interest rates are about half of what they are on hard money.

Let me tell you, this is one of the most difficult loans to do: a cash out refinance on a vacant rental property that has been listed on the MLS within the last 12 months. Lenders out there refuse to touch these things… why? Because they figure the only reason you are trying to refinance is for one reason—you want to strip your equity and the minute you get a buyer, you will pay off the new loan. Lenders hate early pay offs. I read somewhere that a lender breaks even on the costs that it takes to set up and fund your loan at the three month mark. So if you pay off a lender in the first 90 days of the loan, the lender loses money—and they absolutely hate to lose money.

The number of lenders out there that will do unseasoned rate and term refinances are great—maybe 100 to 150 lenders. The number of lenders that will do unseasoned rate and term refinances on a recently listed property are not so great. It drops to about 5 and not only will you pay for it in rate but also, about 100% of the time, these deals will have prepayment penalties.

Maybe you are ok with the prepayment penalties if you decided to keep it as a rental but you also have some ‘splaining to do! You will also need a letter of explanation for the underwriter explaining why you pulled it off the MLS, to assure them you will not be selling it anytime soon. I would try to have your CPA write a letter saying he advised you to pull it the market off because it will be better for you for tax purposes to hold it as a long term rental than to flip it and take the capital gains hit.

The other thing to remember is that these things are tough to do if they are recently listed, but almost impossible if they are vacant, so make sure you have a tenant in there and, by the way, when the appraiser comes out to take the photo of your property to put in the appraisal, make sure there is not a for sale sign in the yard. The underwriter will see that in the picture and it may be a red flag to them. I had a client get really mad at me once for asking her to remove the for sale sign when the appraiser was on his way. Don't be an idiot.
Case Study #5

Condo Litigation

My nephew recently bought a condo and, of course, I arranged the financing for him. One of the crazy things about condos as you've read previously in this book, is that the health of the HOA has a great deal to do with whether or not the loan gets approved. In this case when we sent the condo questionnaire to the HOA (a brand new community by the way—a beautiful place), the questionnaire came back marked “yes” we are currently involved in litigation.

That means they are currently getting sued and that is not a good thing. The underwriter refused to approve the loan until they knew the basis of the lawsuit. We were able to obtain a summary of the lawsuit from the attorney handling it for the HOA. One of the homeowners was suing the HOA and the developer because she had a “funny smell in her unit.” I figured that was innocuous since there was nothing structural or fraud related so I figured that we would be okay. I sent in the documentation for the lawsuit and after a couple of jokes about skunks in the wall, we were able to get the deal closed pretty quickly. By the way, my nephew says his condo smells just fine.

Case Study #6

Deferred Maintenance

As you have read, one thing you do not want listed on your appraisal is deferred maintenance. Most lenders will have a threshold for the dollar amount or severity of deferred maintenance they will allow on an investment property. I had a borrower come to me with a deal that had deferred maintenance listed on the appraisal. Essentially what happened is that someone started to finish a basement but didn’t make much progress. There wasn’t even a staircase leading down to the basement. You could just stand at the kitchen door and jump! Seriously, someone had put a trampoline there. In addition, there was duct work lying around not even attached to anything as well as lots of other issues.

Now, underwriters are not going to like looking at a picture of a basement door that you jump out of onto a trampoline to visit the basement. That was a big issue and the lender actually suspended this loan because they said they would not loan on the house in the shape that it is in with the level of deferred maintenance it had. Because it was a bank owned property, my borrower was able to negotiate some special consideration with the bank after we showed them the approval and suspense notice from the lender. She was actually able to get access to the house prior to taking ownership to have her workers put a stair case in, put the railing up, and finish the duct work so that we could get the appraiser in there to do away with the deferred maintenance. This allowed us to get the loan approved and get it to closing. The risk she ran was that she was spending money to fix up a property that she didn’t own. But she felt confident that it was a great deal and luckily the bank was willing to give her the accommodation she needed to do that.
Case Study #7

The Refinance Addict

I have a terrific client and I love him to death. He owns several rental properties and he is always finding great deals. He buys a lot of properties and luckily he does a lot of business with me. He came to me and said, “I have two deals for you—I want to refinance my personal residence and one of my investment properties.” During the process of these two refinances, the lender pulled a new credit report and found that there were a few new mortgages on there that weren’t on the credit report we supplied or on the mortgage application that we submitted.

The lender wanted to know what the deal was since we had obviously submitted an inaccurate application. When I asked him about the new loans, he said that he had refinanced three of his properties. This is problematic because he took cash out on two of the properties, which meant that he reduced his cash flow on those two properties and in turn, impacted his income. We were close already to the debt to income limit on the loan file as it was submitted and we got a loan denial because now we were over the DTI maximum.

I had to restructure and send his primary residence deal to a brand new lender and start all over again because they weren’t as friendly as one of our other underwriters that said to just bump up the income. To make matters worse, while I was in the process of that new refinance on the primary residence, my credit report became outdated so I had to pull a new credit report and I found two MORE new loans that he had taken out! Sure enough, he had refinanced two more properties. One was a house he had owned free and clear which was giving him a fantastic income bump. He put a mortgage on it and eliminated about $1000 a month in rental income. So AGAIN I had to restructure my two loans in process and try to make them work.

My favorite part of the deal was when he called me one day and was kind of mad, wondering what the hold up was on the refinancing of the primary residence. I had to school him in the fact that it typically isn’t a good idea to refinance six properties at once and NOT tell your broker. We were finally able to get past it and got everything to close. The moral of this story is even though refinancing can be fun, you should try to resist the urge when you have loans already in process.
In Closing

I hope that this book has expanded your knowledge of mortgage finance—especially as it relates to your real estate investing. I’ve had a lot of fun over the years working on these deals and I anticipate even more in the future. The mortgage industry is always changing and evolving and as a result, we have to be prepared to adapt with it.

I’d like to invite you to the blog at www.TheInvestorInsights.com. This is where I post the most relevant and up to date mortgage information just for investors. It’s my goal to keep bringing you the best secrets! This book is just the beginning.
About The Author

Susan Lassiter-Lyons has been investing in real estate since 1994. She is a real estate investor, educator, author and owner of the popular real estate investing blog, www.TheInvestorInsights.com.
Appendices

Disclosures

Copy of FNMA guidelines

Loan conditions
Borrower Signature Authorization

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et seq. (if HUD/FHA); by 42 USC, Section 1452b (if HUD/CPD); and Title 42 USC, 1471 et seq., or 7 USC, 1921 et seq. (if USDA/FmHA).

Part I - General Information

1. Borrower(s)  
   John Doe
   123 Easy Street
   Denver, CO 80206

2. Name and address of Lender/Broker  
   Lassiter Mortgage Group, LLC
   2850 Welton Street
   Denver, CO 80205
   TEL: 303-534-7078  FAX: 303-572-7647

3. Date
4. Loan Number
   070123000

Part II - Borrower Authorization

I hereby authorize the Lender/Broker to verify my past and present employment earnings records, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage loan application. I further authorize the Lender/Broker to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a copy of this form will also serve as authorization.

The information the Lender/Broker obtains is only to be used in the processing of my application for a mortgage loan.

Borrower  John Doe  / SSN: 123-45-6789  

Date

Borrower  

Date
Borrowers' Certification and Authorization

CERTIFICATION

The Undersigned certify the following:
1. I/We have applied for a mortgage loan through Lassiter Mortgage Group, LLC. In applying for the loan, I/We completed a loan application containing various information on the purpose of the loan, the amount and source of the down payment, employment and income information, and the assets and liabilities. I/We certify that all of the information is true and complete. I/We made no misrepresentations in the loan application or other documents, nor did I/We omit any pertinent information.

2. I/We understand and agree that Lassiter Mortgage Group, LLC reserves the right to change the mortgage loan review processes to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.

3. I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage, as applicable under the provisions of Title 18, United States Code, Section 1014.

AUTHORIZATION TO RELEASE INFORMATION

To Whom It May Concern:
1. I/We have applied for a mortgage loan through Lassiter Mortgage Group, LLC. As part of the application process, Lassiter Mortgage Group, LLC and the mortgage guaranty insurer (if any), may verify information contained in my/our loan application and in other documents required in connection with the loan, either before the loan is closed or as part of its quality control program.

2. I/We authorize you to provide to Lassiter Mortgage Group, LLC and to any investor to whom Lassiter Mortgage Group, LLC may sell my mortgage, any and all information and documentation that they request. Such information includes, but is not limited to, employment history and income; bank, money market and similar account balances; credit history; and copies of income tax returns.

3. Lassiter Mortgage Group, LLC or any investor that purchases the mortgage may address this authorization to any party named in the loan application.

4. A copy of this authorization may be accepted as an original.

Borrower Signature

Co-Borrower Signature

John Doe

SSN: 123-45-6789 Date: SSN: Date:
## DISCLOSURE NOTICES

<table>
<thead>
<tr>
<th>Applicant(s):</th>
<th>Property Address:</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Doe</td>
<td>123 Great Deal Way Denver, CO 80205</td>
</tr>
</tbody>
</table>

## AFFIDAVIT OF OCCUPANCY

Applicant(s) hereby certify and acknowledge that, upon taking title to the real property described above, their occupancy status will be as follows:

- [ ] Primary Residence - Occupied by Applicant(s) within 30 days of closing.
- [ ] Secondary Residence - To be occupied by Applicant(s) at least 15 days yearly, as second home (vacation, etc.), while maintaining principal residence elsewhere. [Please check this box if you plan to establish it as your primary residence at a future date (e.g., retirement)].
- [✓] Investment Property - Not owner occupied. Purchased as an investment to be held or rented.

The Applicant(s) acknowledge it is a federal crime punishable by fine or imprisonment, or both, to knowingly make any false statement concerning this loan application as applicable under the provisions of Title 18, United States Code, Section 1014.

---

| APPLICANT SIGNATURE | CO-APPLICANT SIGNATURE |

## ANTI-COERCION STATEMENT

The insurance laws of this state provide that the lender may not require the applicant to take insurance through any particular insurance agent or company to protect the mortgaged property. The applicant, subjected to the rules adopted by the Insurance Commissioner, has the right to have the insurance placed with an insurance agent or company of his choice, provided the company meets the requirement of the lender. The lender has the right to designate reasonable financial requirements as to the company and the adequacy of the coverage.

I have read the foregoing statement, or the rules of the Insurance Commissioner relative hereto, and understand my rights and privileges and those of the lender relative to the placing of such insurance.

I have selected the following agencies to write the insurance covering the property described above:

- Insurance Company Name: [ ]
- Agent: [ ]
- Agent's Address: [ ]
- Agent's Telephone Number: [ ]

---

| APPLICANT SIGNATURE | CO-APPLICANT SIGNATURE |

## FAIR CREDIT REPORTING ACT

An investigation will be made as to the credit standing of all individuals seeking credit in this application. The nature and scope of any investigation will be furnished to you upon written request made within a reasonable period of time. In the event of credit denial due to an unfavorable consumer report, you will be advised of the identity of the Consumer Reporting Agency making such report and of your right to request within sixty (60) days the reason for the adverse action, pursuant to provisions of section 615(b) of the Fair Credit Reporting Act.

---

| APPLICANT SIGNATURE | CO-APPLICANT SIGNATURE |

## FHA LOANS ONLY

IF YOU PREPAY YOUR LOAN ON OTHER THAN THE REGULAR INSTALLMENT DATE, YOU MAY BE ASSESSED INTEREST CHARGES UNTIL THE END OF THAT MONTH.

## GOVERNMENT LOANS ONLY

RIGHT TO FINANCIAL PRIVACY ACT OF 1978 - This is a notice to you as required by the Right to Financial Privacy Act of 1978 that the Department of Housing and Urban Development or Department of Veterans Affairs has a right of access to financial records held by a financial institution in connection with the consideration of administration of assistance to you. Financial records involving your transaction will be available to the Department of Housing and Urban Development or Department of Veterans Affairs without further notice or authorization but will not be disclosed or released to another Government agency or Department without your consent except as required or permitted by law.

---

| APPLICANT SIGNATURE | CO-APPLICANT SIGNATURE |
EQUAL CREDIT OPPORTUNITY ACT

APPLICATION NO: 070123000

PROPERTY ADDRESS: 123 Great Deal Way
Denver, CO 80205

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this company is the Comptroller of the Currency Customer Assistance Group, 1301 McKinney Street, Suite 3450 Houston, Texas 77010-9050

We are required to disclose to you that you need not disclose income from alimony, child support or separate maintenance payment if you choose not to do so.

Having made this disclosure to you, we are permitted to inquire if any of the income shown on your application is derived from such a source and to consider the likelihood of consistent payment as we do with any income on which you are relying to qualify for the loan for which you are applying.

John Doe (Applicant) (Date)

(Applicant) (Date)
THE HOUSING FINANCIAL DISCRIMINATION ACT OF 1977
FAIR LENDING NOTICE

DATE: 
APPLICATION NO: 070123000

PROPERTY ADDRESS: 123 Great Deal Way
Denver, CO 80205

It is illegal to discriminate in the provisions of or in the availability of financial assistance because of the consideration of:

1. Trends, characteristics or conditions in the neighborhood or geographic area surrounding a housing accommodation, unless the financial institution can demonstrate in the particular case that such consideration is required to avoid an unsafe and unsound business practice; or

2. Race, color, religion, sex, marital status, national origin or ancestry.

It is illegal to consider the racial, ethnic, religious or national origin composition of a neighborhood or geographic area surrounding a housing accommodation or whether or not such composition is undergoing change, or is expected to undergo change, in appraising a housing accommodation or in determining whether or not, or under what terms and conditions, to provide financial assistance.

These provisions govern financial assistance for the purpose of the purchase, construction, rehabilitation or refinancing of a one-to-four unit family residence occupied by the owner and for the purpose of the home improvement of any one-to-four unit family residence.

If you have any questions about your rights, or if you wish to file a complaint, contact the management of this financial institution or the agency noted below:

I/we received a copy of this notice.

_________________________________________  ______________________________  ______________________________
John Doe                                         Date                                         Date

Calyx Form - fin.hp (2/99)
MORTGAGE LOAN ORIGINATION AGREEMENT  
(Warning to Broker: The content of this form may vary depending upon the state in which it is used.)

You *John Doe* agree to enter into this Mortgage Loan Origination Agreement with *Lassiter Mortgage Group, LLC* as an independent contractor to apply for a residential mortgage loan from a participating lender with which we from time to time contract upon such terms and conditions as you may request or a lender may require. You inquired into mortgage financing with

Lassiter Mortgage Group, LLC

We are licensed as a "Mortgage Broker" under

**SECTION 1. NATURE OF RELATIONSHIP.** In connection with this mortgage loan:

* We are acting as an independent contractor and not as your agent.
* We will enter into separate independent contractor agreements with various lenders.
* While we seek to assist you in meeting your financial needs, we do not distribute the products of all lenders or investors in the market and cannot guarantee the lowest price or best terms available in the market.

**SECTION 2. OUR COMPENSATION.** The lenders whose loan products we distribute generally provide their loan products to us at a wholesale rate.

* The retail price we offer you - your interest rate, total points and fees - will include our compensation.
* In some cases, we may be paid all of our compensation by either you or the lender.
* Alternatively, we may be paid a portion of our compensation by both you and the lender. For example, in some cases, if you would rather pay a lower interest rate, you may pay higher up-front points and fees.
* Also, in some cases, if you would rather pay less up front, you may be able to pay some or all of our compensation indirectly through a higher interest rate in which case we will be paid directly by the lender.

We also may be paid by the lender based on (i) the value of the Mortgage Loan or related servicing rights in the market place or (ii) other services, goods or facilities performed or provided by us to the lender.

By signing below, the mortgage loan originator and mortgage loan applicant(s) acknowledge receipt of a copy of this signed Agreement.

<table>
<thead>
<tr>
<th>MORTGAGE LOAN ORIGINATOR</th>
<th>APPLICANT(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lassiter Mortgage Group, LLC</strong></td>
<td><strong>John Doe</strong></td>
</tr>
<tr>
<td>Company Name</td>
<td>Applicant Name(s)</td>
</tr>
<tr>
<td>2850 Welton Street</td>
<td>123 Easy Street</td>
</tr>
<tr>
<td>Address</td>
<td>Address</td>
</tr>
<tr>
<td>Denver, CO 80205</td>
<td>Denver, CO 80206</td>
</tr>
<tr>
<td>City, State, Zip</td>
<td>City, State, Zip</td>
</tr>
<tr>
<td>303-534-7078 / 303-572-7647</td>
<td></td>
</tr>
<tr>
<td>Phone/Fax</td>
<td>Borrower Signature</td>
</tr>
<tr>
<td></td>
<td>Date</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Broker or Authorized Agent Signature</th>
<th>Date</th>
</tr>
</thead>
</table>

Calyx Form MLOA.FRM 7/01
NOTICE TO APPLICANT OF RIGHT
TO RECEIVE COPY OF APPRAISAL REPORT

APPLICATION NO:  070123000

PROPERTY ADDRESS:  123 Great Deal Way
Denver, CO 80205 County:Denver

You have the right to receive a copy of the appraisal report to be obtained in connection with the loan for which you are applying, provided that you have paid for the appraisal. We must receive your written request no later than 90 days after we notify you about the action taken on your application or you withdraw your application. If you would like a copy of the appraisal report, contact:

Lassiter Mortgage Group, LLC
2850 Welton Street
Denver, CO 80205

John Doe
(Applicant) (Date)

(Applicant) (Date)

(Applicant) (Date)

(Applicant) (Date)
NOTICE TO FIRST LIEN MORTGAGE LOAN APPLICANTS: THE RIGHT TO COLLECT YOUR MORTGAGE LOAN PAYMENTS MAY BE TRANSFERRED. FEDERAL LAW GIVES YOU CERTAIN RELATED RIGHTS. IF YOUR LOAN IS MADE, SAVE THIS STATEMENT WITH YOUR LOAN DOCUMENTS. SIGN THE ACKNOWLEDGMENT AT THE END OF THIS STATEMENT ONLY IF YOU UNDERSTAND ITS CONTENTS.

Because you are applying for a mortgage loan covered by the Real Estate Settlement Procedures Act (RESPA) (12 U.S.C. Section 2601 et seq.) you have certain rights under that Federal law.

This statement tells you about those rights. It also tells you what the chances are that the servicing for this loan may be transferred to a different loan servicer. “Servicing” refers to collecting your principal, interest and escrow account payments, if any. If your loan servicer changes, there are certain procedures that must be followed. This statement generally explains those procedures.

Transfer practices and requirements

If the servicing of your loan is assigned, sold, or transferred to a new servicer, you must be given written notice of that transfer. The present loan servicer must send you notice in writing of the assignment, sale or transfer of the servicing not less than 15 days before the effective date of the transfer. The new loan servicer must also send you notice within 15 days after the effective date of the transfer. The present servicer and the new servicer may combine this information in one notice, so long as the notice is sent to you 15 days before the effective date of transfer. The 15 day period is not applicable if a notice of prospective transfer is provided to you at settlement. The law allows a delay in the time (not more than 30 days after a transfer) for servicers to notify you, upon the occurrence of certain business emergencies.

Notices must contain certain information. They must contain the effective date of the transfer of the servicing of your loan to the new servicer, and the name, address, and toll-free or collect call telephone number of the new servicer, and toll-free or collect call telephone numbers of a person or department for both your present servicer and your new servicer to answer your questions. During the 60 day period following the effective date of the transfer of the loan servicing, a loan payment received by your old servicer before its due date may not be treated by the new loan servicer as late, and a late fee may not be imposed on you.

Complaint Resolution

Section 6 of RESPA (12 U.S.C. Section 2605) gives you certain consumer rights, whether or not your loan servicing is transferred. If you send a “qualified written request" to your servicer, then your servicer must provide you with a written acknowledgment within 20 Business Days of receipt of your request. A “qualified written request" is a written correspondence, other than notice on a payment coupon or other payment medium supplied by the servicer, which includes your name and account number, and the information regarding your request. Not later than 60 Business Days after receiving your request, your servicer must make any appropriate corrections to your account, or must provide you with a written clarification regarding any dispute. During this 60 Business Day period, your servicer may not provide information to a consumer reporting agency concerning any overdue payment related to such period or qualified written request.

A Business Day is any day in which the offices of the business entity are open to the public for carrying on substantially all of its business functions.

Damages and Costs

Section 6 of RESPA also provides for damages and costs for individuals or classes of individuals in circumstances where servicers are shown to have violated the requirements of that Section.
Servicing Transfer Estimates

1. The following is the best estimate of what will happen to the servicing of your mortgage loan:

   A. ☑ We may assign, sell or transfer the servicing of your loan while the loan is outstanding.

      We are able to service your loan, and we
      ☐ will service your loan.
      ☑ will not service your loan.
      ☐ haven't decided whether to service your loan.

   B. ☑ We do not service mortgage loans ☑ and we have not serviced mortgage loans in the
      past three years.

      We presently intend to assign, sell or transfer the servicing of your mortgage loan. You will be
      informed about your servicer.

2. For all mortgage loans that we make in the 12 month period after your mortgage loan is funded,
   we estimate that the percentage of such loans for which we will transfer servicing is between:

   ☑ 0 to 25% ☐ 26 to 50% ☐ 51 to 75% ☐ 76 to 100%

   This estimate ☑ does ☐ does not include assignments, sales or transfers to affiliates or subsidiaries.

   This is only our best estimate and it is not binding. Business conditions or other circumstances may
   affect our future transferring decisions.

3. A. ☐ We have previously assigned, sold, or transferred the servicing of mortgage loans.

   B. ☑ This is our record of transferring the servicing of mortgage loans we have made in:

      Year       Percentage of Loans Transferred
      2004       100 %
      2005       100 %

   This information ☑ does ☐ does not include assignments, sales or transfers to affiliates or subsidiaries.

Acknowledgment of Mortgage Loan Applicant(s)

I/We have read and understood the disclosure; and understand that the disclosure is a required part of the
mortgage application as evidenced by my/our signature(s) below;

Applicant  John Doe  Date  Applicant  Date
Applicant  Date  Applicant  Date
**Request for Copy of Tax Return**

**Department of the Treasury**

**Internal Revenue Service**

**Form 4506**

(Rev. November 2005)

**Request for Copy of Tax Return**

**Do not sign this form unless all applicable lines have been completed.**

**Read the instructions on page 2.**

**Request may be rejected if the form is incomplete, illegible, or any required line was blank at the time of signature.**

---

**TIP:** You may be able to get your tax return or return information from other sources. If you had your tax return completed by a paid preparer, they should be able to provide you a copy of the return. The IRS can provide a **Tax Return Transcript** for many returns free of charge. The transcript provides most of the line entries from the tax return and usually contains the information that a third party (such as a mortgage company) requires. See **Form 4506-T, Request for Transcript of Tax Return**, or you can call 1-800-829-1040 to order a transcript.

---

<table>
<thead>
<tr>
<th>1a</th>
<th>Name shown on tax return. If a joint return, enter the name shown first.</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Doe</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2a</th>
<th>If a joint return, enter spouse’s name shown on tax return.</th>
</tr>
</thead>
<tbody>
<tr>
<td>If a joint return, enter spouse’s name shown on tax return.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2b</th>
<th>Second social security number if joint tax return</th>
</tr>
</thead>
<tbody>
<tr>
<td>123-45-6789</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>3</th>
<th>Current name, address (including apt., room, or suite no.), city, state, and ZIP code</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 Easy Street Denver, CO 80206</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>Previous address shown on the last return filed if different from line 3</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>5</th>
<th>If the tax return is to be mailed to a third party (such as a mortgage company), enter the third party’s name, address, and telephone number. The IRS has no control over what the third party does with the tax return.</th>
</tr>
</thead>
</table>

---

**CAUTION:** If a third party requires you to complete Form 4506, **do not** sign Form 4506 if lines 6 and 7 are blank.

<table>
<thead>
<tr>
<th>6</th>
<th><strong>Tax return requested</strong> (Form 1040, 1120, 941, etc.) and all attachments as originally submitted to the IRS, including Form(s) W-2, schedules, or amended returns. Copies of Forms 1040, 1040A, and 1040EZ are generally available for 7 years from filing before they are destroyed by law. Other returns may be available for a longer period of time. Enter only one return number. If you need more than one type of return, you must complete another Form 4506.</th>
</tr>
</thead>
</table>

**Note:** If the copies must be certified for court or administrative proceedings, check here.

<table>
<thead>
<tr>
<th>7</th>
<th><strong>Year or period requested.</strong> Enter the ending date of the year or period, using the mm/dd/yyyy format. If you are requesting more than eight years or periods, you must attach another Form 4506.</th>
</tr>
</thead>
</table>

---

<table>
<thead>
<tr>
<th>8</th>
<th><strong>Fee.</strong> There is a $39 fee for each return requested. Full payment must be included with your request or it will be rejected. Make your check or money order payable to “United States Treasury.” Enter your SSN or EIN and “Form 4506 request” on your check or money order.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>a</th>
<th>Cost for each return</th>
</tr>
</thead>
<tbody>
<tr>
<td>b</td>
<td>Number of returns requested on line 7</td>
</tr>
<tr>
<td>c</td>
<td>Total cost. Multiply line 8a by line 8b</td>
</tr>
</tbody>
</table>

| $ 39.00 |

---

<table>
<thead>
<tr>
<th>9</th>
<th>If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here.</th>
</tr>
</thead>
</table>

---

**Signature of taxpayer(s).** I declare that I am either the taxpayer whose name is shown on line 1a or 2a, or a person authorized to obtain the tax return requested. If the request applies to a joint return, either husband or wife must sign. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute Form 4506 on behalf of the taxpayer.

**Telephone number of taxpayer on line 1a or 2a** ( )

---

**Sign Here**

**Signature (see instructions)**

**Date**

**Title** (If line 1a above is a corporation, partnership, estate, or trust)

---

For Privacy Act and Paperwork Reduction Act Notice, see page 2.

Cat. No. 41721E

Form 4506 (Rev. 11-2005)
General Instructions
Section references are to the Internal Revenue Code.

Purpose of form. Use Form 4506 to request a copy of your tax return. You can also designate a third party to receive the tax return. See line 5.

How long will it take? It may take up to 60 calendar days for us to process your request.

Tip. Use Form 4506-T, Request for Transcript of Tax Return, to request tax return transcripts, tax account information, W-2 information, 1099 information, verification of non-filing, and record of account.

Where to file. Attach payment and mail Form 4506 to the address below for the state you lived in when that return was filed. There are two address charts: one for individual returns (Form 1040 series) and one for all other returns.

Note: If you are requesting more than one return and the chart below shows two different service centers, mail your request to the service center based on the address of your most recent return.

Chart for individual returns (Form 1040 series)
If you filed an individual return and lived in:

<table>
<thead>
<tr>
<th>State</th>
<th>Service Center</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama, Delaware</td>
<td>RAIVS Team</td>
<td>310 Lowell St. Stop 679, Andover, MA 01810</td>
</tr>
<tr>
<td>Florida, Georgia</td>
<td>RAIVS Team</td>
<td>4800 Buford Hwy. Stop 91, Chamblee, GA 30341</td>
</tr>
<tr>
<td>North Carolina</td>
<td>RAIVS Team</td>
<td>P.O. Box 3941 Stop 6734, Atlanta, GA 30321</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>RAIVS Team</td>
<td>P.O. Box 885 Stop 1605, Cincinnati, OH 45250</td>
</tr>
<tr>
<td>South Carolina, Virginia</td>
<td>RAIVS Team</td>
<td>P.O. Box 14550 Stop 2800, Fresno, CA 93727</td>
</tr>
<tr>
<td>Arkansas, Kansas</td>
<td>RAIVS Team</td>
<td>3651 South Intergenral Hwy. Stop 6716 AUSC, Austin, TX 78741</td>
</tr>
<tr>
<td>Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas, West Virginia</td>
<td>RAIVS Team</td>
<td>3651 South Intergenral Hwy. Stop 6716 AUSC, Austin, TX 78741</td>
</tr>
<tr>
<td>Alabama, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming</td>
<td>RAIVS Team</td>
<td>3651 South Intergenral Hwy. Stop 6716 AUSC, Austin, TX 78741</td>
</tr>
</tbody>
</table>

All others. See section 6103(e) if the taxpayer has died, is insolvent, is a dissolved corporation, or if a trustee, guardian, executor, receiver, or administrator is acting for the taxpayer.

Documentation. For entities other than individuals, you must attach the authorization document. For example, this could be the letter from the principal officer authorizing an employee of the corporation or the Letters Testamentary authorizing an individual to act for an estate.

Signature by a representative. A representative can sign Form 4506 for a taxpayer only if this authority has been specifically delegated to the representative on Form 2848, line 5. Form 2848 showing the delegation must be attached to Form 4506.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to establish your right to gain access to the requested return(s) under the Internal Revenue Code. We need this information to properly identify the return(s) and respond to your request. Sections 6103 and 6109 require you to provide this information, including your SSN or EIN, to process your request. If you do not provide this information, we may not be able to process your request. Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for criminal and civil litigation, and cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act. If the form displays a valid OMB control number. Books or records relating to a form and its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law.

Generally, tax returns and return information are confidential, as required by section 6103. You must retain returns and other return information as you do business with the IRS.

For entities other than individuals, you must attach the authorization document. For example, this could be the letter from the principal officer authorizing an employee of the corporation or the Letters Testamentary authorizing an individual to act for an estate.

Signature by a representative. A representative can sign Form 4506 for a taxpayer only if this authority has been specifically delegated to the representative on Form 2848, line 5. Form 2848 showing the delegation must be attached to Form 4506.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to establish your right to gain access to the requested return(s) under the Internal Revenue Code. We need this information to properly identify the return(s) and respond to your request. Sections 6103 and 6109 require you to provide this information, including your SSN or EIN, to process your request. If you do not provide this information, we may not be able to process your request. Providing false or fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act. If the form displays a valid OMB control number. Books or records relating to a form and its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law.

Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file Form 4506 will vary depending on individual circumstances. The estimated average time is:

- 16 min.; and
- 10 min.; and
- 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 4506 simpler, we would be happy to hear from you. You can write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the form to this address. Instead, see Where to file on this page.

Calyx Form - tax4506b.frm (01/06)
Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when the income or assets of a person other than the "Borrower" (including the Borrower's spouse) will be used as a basis for loan qualification or the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Co-Borrower</th>
</tr>
</thead>
</table>

I. TYPE OF MORTGAGE AND TERMS OF LOAN

<table>
<thead>
<tr>
<th>Mortgage</th>
<th>Agency Case Number</th>
<th>Lender Case Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Other (explain):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount</th>
<th>Interest Rate</th>
<th>No. of Months</th>
<th>Amortization Type:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>7.00%</td>
<td>360/360</td>
<td>Fixed Rate</td>
</tr>
</tbody>
</table>

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Subject Property Address (street, city, state, & ZIP): 123 Great Deal Way, Denver, CO 80205 County: Denver

Legal Description of Subject Property (attach description if necessary): See preliminary title report

Year Built: 1980

Purpose of Loan: Purchase

Property will be: Primary Residence

Complete this line if construction or construction-permanent loan.

Year Lot Acquired | Original Cost | Amount Existing Liens | (a) Present Value of Lot | (b) Cost of Improvements | Total (a+b)
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Complete this line if this is a refinance loan.

Year Acquired | Original Cost | Amount Existing Liens | Purpose of Refinance | Describe Improvements | Made | to be made
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Title will be held in what Name(s): John Doe

Manner in which Title will be held: Single man

Estate will be held in: Fee Simple

Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain): Cash on Hand

III. BORROWER INFORMATION

Borrower's Name (include Jr. or Sr. if applicable): John Doe

Social Security Number: 123-45-6789

Home Phone (incl. area code): 303-555-1212

DOB (mm/dd/yyyy): 07/30/1965

Yrs. School: 16

Married: Yes

Unmarried (include single, separated, divorced, widowed): Yes

Dependents (not listed by Co-Borrower): 0

Present Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Mailing Address, if different from Present Address: 123 Easy Street

Denver, CO 80206

If residing at present address for less than two years, complete the following:

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

If residing at present address for less than two years, complete the following:

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206

Former Address (street, city, state, ZIP): 123 Easy Street

Denver, CO 80206
<table>
<thead>
<tr>
<th>Borrower / Co-Borrower</th>
<th>IV. EMPLOYMENT INFORMATION</th>
<th>Co-Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name &amp; Address of Employer</td>
<td>[ ] Self Employed</td>
<td>Name &amp; Address of Employer</td>
</tr>
<tr>
<td>John Doe Properties, LLC</td>
<td></td>
<td>Yrs. on this job</td>
</tr>
<tr>
<td>123 East Street</td>
<td></td>
<td>10 yr(s) 0 mth(s)</td>
</tr>
<tr>
<td>Denver, CO 80206</td>
<td></td>
<td>Yrs. employed in this line of work/profession</td>
</tr>
<tr>
<td>Position/Title/Type of Business</td>
<td>Business Phone (incl. area code)</td>
<td>Position/Title/Type of Business</td>
</tr>
<tr>
<td>Manager</td>
<td>303-555-1212</td>
<td></td>
</tr>
</tbody>
</table>

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

<table>
<thead>
<tr>
<th>Name &amp; Address of Employer</th>
<th>[ ] Self Employed</th>
<th>Dates (from-to)</th>
<th>Monthly Income $</th>
<th>Name &amp; Address of Employer</th>
<th>[ ] Self Employed</th>
<th>Dates (from-to)</th>
<th>Monthly Income $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position/Title/Type of Business</td>
<td>Business Phone (incl. area code)</td>
<td>Position/Title/Type of Business</td>
<td>Business Phone (incl. area code)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

<table>
<thead>
<tr>
<th>Gross Monthly Income</th>
<th>Borrower</th>
<th>Co-Borrower</th>
<th>Total</th>
<th>Combined Monthly Housing Expense</th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Empl. Income*</td>
<td>$10,000.00</td>
<td>$</td>
<td>$10,000.00</td>
<td>Rent</td>
<td>$</td>
<td>$1,147.95</td>
</tr>
<tr>
<td>Overtime</td>
<td></td>
<td></td>
<td></td>
<td>First Mortgage (P&amp;I)</td>
<td>$997.95</td>
<td></td>
</tr>
<tr>
<td>Bonuses</td>
<td></td>
<td></td>
<td></td>
<td>Other Financing (P&amp;I)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td></td>
<td></td>
<td></td>
<td>Hazard Insurance</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td>Dividends/Interest</td>
<td></td>
<td></td>
<td></td>
<td>Real Estate Taxes</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>Net Rental Income</td>
<td></td>
<td></td>
<td></td>
<td>Mortgage Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (before completing, see the notice in &quot;describe other income,&quot; below)</td>
<td></td>
<td></td>
<td></td>
<td>Homeowner Assn. Dues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other:</td>
<td></td>
<td></td>
<td></td>
<td>Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$10,000.00</td>
<td>$</td>
<td>$10,000.00</td>
<td>Total</td>
<td>$</td>
<td>$1,147.95</td>
</tr>
</tbody>
</table>

* Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Describe Other Income: **Notice:** Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

<table>
<thead>
<tr>
<th>B/C</th>
<th>Monthly Amount $</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fannie Mae Form 1003 07/05
CALYX Form Loanapp2.frm 09/05
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Borrower  Co-Borrower
Freddie Mac Form 65 07/05
VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-borrowers if their assets and liabilities are sufficiently united so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed by that spouse or other person also.

Completed □ Jointly ○ Not Jointly □

ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Cash or Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash deposit toward purchase held by:</td>
<td>$</td>
</tr>
</tbody>
</table>

LIABILITIES

<table>
<thead>
<tr>
<th>Liabilities and Pledged Assets</th>
<th>Monthly Payment &amp; Months Left to Pay</th>
<th>Unpaid Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name and address of Company</td>
<td>$ Payment/Months</td>
<td>$</td>
</tr>
<tr>
<td>Name and address of Company</td>
<td>$ Payment/Months</td>
<td>$</td>
</tr>
<tr>
<td>Name and address of Company</td>
<td>$ Payment/Months</td>
<td>$</td>
</tr>
<tr>
<td>Name and address of Company</td>
<td>$ Payment/Months</td>
<td>$</td>
</tr>
</tbody>
</table>

Schedule of Real Estate Owned (if additional properties are owned, use continuation sheet)

<table>
<thead>
<tr>
<th>Property Address (enter S if sold, PS if pending sale or R if rental being held for income)</th>
<th>Type of Property</th>
<th>Present Market Value</th>
<th>Amount of Mortgages &amp; Liens</th>
<th>Gross Rental Income</th>
<th>Mortgage Payments</th>
<th>Insurance, Maintenance, Taxes &amp; Misc.</th>
<th>Net Rental Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 East Street Denver, CO 80206</td>
<td>Primary Residence</td>
<td>$ 300,000</td>
<td>$ 200,000</td>
<td>$ 1,500</td>
<td></td>
<td>INC</td>
<td>$</td>
</tr>
</tbody>
</table>

Net Worth (a minus b) => $ 257,800

Total Liabilities b. $ 225,000

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

Alternate Name
Creditor Name
Account Number
VII. DETAILS OF TRANSACTION

- Purchase price $150,000.00
- Alterations, improvements, repairs
- Land (if acquired separately)
- Refinance (incl. debts to be paid off)
- Estimated prepaid items $300.00
- Estimated closing costs $3,602.00
- PMI, MIP, Funding Fee
- Discount (if Borrower will pay)
- Total costs (add items a through h) $153,902.00
- Subordinate financing
- Borrower's closing costs paid by Seller
- Other Credits (explain)
  Cash Deposit on sales contract $1,000.00

VIII. DECLARATIONS

A. Are there any outstanding judgments against you?
B. Have you been declared bankrupt within the past 7 years?
C. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?
D. Are you a party to a lawsuit?
E. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment?
F. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee?
G. Are you obligated to pay alimony, child support, or separate maintenance?
H. Is any part of the down payment borrowed?
I. Are you a co-maker or endorser on a note?
J. Are you a U.S. citizen?
K. Are you a permanent resident alien?
L. Do you intend to occupy the property as your primary residence?
M. Have you had an ownership interest in a property in the last three years?
N. What type of property did you own-principal residence (PR), second home (SH), or investment property (IP)?
O. How did you hold title to the home-solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a Lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)

Borrower: Do not wish to furnish this information
Co-Borrower: Do not wish to furnish this information

Ethnicity: Hispanic or Latino ☑ Not Hispanic or Latino
Race: American Indian or Alaska Native ☑ Asian ☑ Black or African American
Native Hawaiian or Other Pacific Islander ☑ White
Sex: Female ☑ Male

Name of Interviewer: Susan Lassiter-Lyons
Interviewer's Phone Number: 303-534-7078
Mail: 2850 Welton Street Denver, CO 80205
Phone: (303) 534-7078
Internet: (303) 572-7647

Name and Address of Interviewer's Employer: Lassiter Mortgage Group, LLC
2850 Welton Street Denver, CO 80205

To be Completed by Interviewer:
This application was taken by:
Face-to-face interview
Mail
Telephone
Internet

Date: 07/05
CALYX Form Loanapp4.frm 09/05
Page 4 of 5
PATRIOT ACT
INFORMATION DISCLOSURE

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

I/we acknowledge that I/we received a copy of this disclosure.

Applicant Name: John Doe
Co-Applicant Name: 
Present Address: 123 Easy Street, Denver, CO 80206
Mailing Address: 123 Easy Street, Denver, CO 80206

Applicant
Date

Applicant
Date
Customer Identification Documentation
Patriot Act

The USA Patriot Act requires all financial institutions to obtain, verify and record information that identifies every customer. Completion of this documentation is required in order to comply with the USA Patriot Act. A completed copy of this information must be retained with the loan file.

Application Number 070123000     Date

Name of Applicant John Doe

Social Security # 123-45-6789    Date of Birth 07/30/1965

Present Address 123 Easy Street / Denver, CO 80206

Mailing Address 123 Easy Street / Denver, CO 80206

Primary Identification Documentation
Document Type ______________________ Other Document Type ______________________

Document Number ______________________

Issue Date ______________________ Expiration Date ______________________

Issued by ______________________

Secondary Identification Documentation
Document Type ______________________ Other Document Type ______________________

Document Number ______________________

Issue Date ______________________ Expiration Date ______________________

Issued by ______________________

Discrepancies and Resolution

Completed by ______________________

Calyx Form (4/04)
BRWIDDoc.frm
GOOD FAITH ESTIMATE

Applicants: John Doe
Property Addr: 123 Great Deal Way, Denver, CO 80206
Prepared By: Lassiter Mortgage Group, LLC, Ph. 303-434-7078
2580 Welton Street, Denver, CO 80205

The information provided below reflects estimates of the charges which you are likely to incur at the settlement of your loan. The fees listed are estimates; actual charges may be more or less. Your transaction may not involve a fee for every item listed. The numbers listed beside the estimates generally correspond to the numbers in the HUD-1 settlement statement which you will be receiving at settlement. The HUD-1 settlement statement will show you the actual cost for items paid at settlement.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Interest Rate</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loan Amount</td>
<td>$150,000</td>
<td>7.00%</td>
<td>360 / 360 months</td>
</tr>
</tbody>
</table>

### Items Payable in Connection with Loan:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>901</td>
<td>Loan Origination Fee</td>
<td>1.000%</td>
<td>$1,600.00</td>
</tr>
<tr>
<td>502</td>
<td>Loan Discount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>503</td>
<td>Appraisal Fee</td>
<td></td>
<td>$475.00</td>
</tr>
<tr>
<td>504</td>
<td>Credit Report</td>
<td></td>
<td>$29.00</td>
</tr>
<tr>
<td>505</td>
<td>Lender’s Inspection Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>508</td>
<td>Mortgage Broker Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>509</td>
<td>Tax Related Service Fee</td>
<td></td>
<td>$78.00</td>
</tr>
<tr>
<td>910</td>
<td>Processing Fee</td>
<td></td>
<td>$476.09</td>
</tr>
<tr>
<td>511</td>
<td>Underwriting Fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>512</td>
<td>Wire Transfer Fee</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Title Charges:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1100</td>
<td>Closing or Escrow Fee</td>
<td>$150.00</td>
</tr>
</tbody>
</table>

### Government Recording & Transfer Charges:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1200</td>
<td>Recording Fees</td>
<td>$120.00</td>
</tr>
<tr>
<td>1202</td>
<td>City/County Tax/Stamps</td>
<td></td>
</tr>
<tr>
<td>1203</td>
<td>State Tax/Stamps</td>
<td></td>
</tr>
</tbody>
</table>

### Additional Settlement Charges:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1300</td>
<td>Title Insurance</td>
<td>$780.00</td>
</tr>
<tr>
<td>1302</td>
<td>Tax Cert</td>
<td></td>
</tr>
</tbody>
</table>

**Estimated Closing Costs:** $3,692.00

### Items Required by Lender to Be Paid in Advance:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Rate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>901</td>
<td>Interest for</td>
<td>days @ $</td>
<td>$29,186.77 per day</td>
</tr>
<tr>
<td>902</td>
<td>Mortgage Insurance Premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>903</td>
<td>Hazard Insurance Premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>904</td>
<td>VA Funding Fee</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Reserves Deposited with Lender:

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Rate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001</td>
<td>Hazard Insurance Premium</td>
<td>months @ $</td>
<td>$50.00 per month</td>
</tr>
<tr>
<td>1002</td>
<td>Mortgage Ins. Premium Reserves</td>
<td>months @ $</td>
<td>$160.00 per month</td>
</tr>
<tr>
<td>1003</td>
<td>School Tax</td>
<td>months @ $</td>
<td>per month</td>
</tr>
<tr>
<td>1004</td>
<td>Taxes and Assessment Reserves</td>
<td>months @ $</td>
<td>$300.00 per month</td>
</tr>
<tr>
<td>1005</td>
<td>Flood Insurance Reserves</td>
<td>months @ $</td>
<td>per month</td>
</tr>
</tbody>
</table>

**Estimated Prepaid Items/Reserves:** $300.00

### Total Estimated Settlement Charges:

$3,992.00

### Compensation to Broker

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price/Payoff (-)</td>
<td></td>
<td></td>
<td>$97.55</td>
</tr>
<tr>
<td>Loan Amount (-)</td>
<td></td>
<td></td>
<td>$150,000.00</td>
</tr>
<tr>
<td>New First Mortgage(-)</td>
<td></td>
<td></td>
<td>$150,000.00</td>
</tr>
<tr>
<td>Other Financing (P 5.6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hazard Insurance</td>
<td></td>
<td></td>
<td>$30.00</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td></td>
<td></td>
<td>$160.00</td>
</tr>
<tr>
<td>Homeowner Assoc. Dues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Est. Funds needed to close</td>
<td></td>
<td></td>
<td>$3,992.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Deposit to Escrow</td>
<td></td>
<td></td>
</tr>
<tr>
<td>101</td>
<td>Escrow Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>102</td>
<td>Savings Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>103</td>
<td>Reserve Fund</td>
<td></td>
<td></td>
</tr>
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</table>

### TOTAL ESTIMATED MONTHLY PAYMENT:

$797.55

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
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<th>Rate</th>
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<tbody>
<tr>
<td>Total Estimated Funds Needed to Close</td>
<td></td>
<td></td>
<td>$3,992.00</td>
</tr>
</tbody>
</table>

**Total Monthly Payment:** $1,147.65

**Applicant:** John Doe
**Date:**

Calix RMS: pfs frm 11/01
TRUTH-IN-LENDING DISCLOSURE STATEMENT

THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND

Applicants: John Doe

Property Address: 123 Great Deal Way

Application No: 070123000

Prepared By: Lassiter Mortgage Group, LLC

2850 Welton Street
Denver, CO 80205

503-834-7778

Date Prepared:

ANNUAL PERCENTAGE RATE
The cost of your credit as a yearly rate

7.000 %

FINANCE CHARGE
The dollar amount the credit will cost you

$209,268.34

AMOUNT FINANCED
The amount of credit provided to you or on your behalf

$160,000.00

TOTAL OF PAYMENTS
The amount you will have paid after making all payments as scheduled

$389,268.34

☐ REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit

PAYMENTS: Your payment schedule will be:

<table>
<thead>
<tr>
<th>Number of Payments</th>
<th>Amount of Payments **</th>
<th>When Payments Are Due</th>
<th>Number of Payments</th>
<th>Amount of Payments **</th>
<th>When Payments Are Due</th>
<th>Number of Payments</th>
<th>Amount of Payments **</th>
<th>When Payments Are Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>359</td>
<td>997.95</td>
<td>Monthly beginning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>1,002.29</td>
<td>Monthly beginning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

☐ DEMAND FEATURE: This obligation has a demand feature.

☐ VARIABLE RATE FEATURE: This loan contains a variable rate feature. A variable rate disclosure has been provided earlier.

CREDIT LIFE/CLM/CRD DISABILITY: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

<table>
<thead>
<tr>
<th>Type</th>
<th>Coverage Description</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Life</td>
<td>I want credit life insurance.</td>
<td>Signature:</td>
</tr>
<tr>
<td>Credit Disability</td>
<td>I want credit disability insurance.</td>
<td>Signature:</td>
</tr>
<tr>
<td>Credit Life and Disability</td>
<td>I want credit life and disability insurance.</td>
<td>Signature:</td>
</tr>
</tbody>
</table>

INSURANCE: The following insurance is required to obtain credit:

☐ Credit life insurance ☐ Credit disability ☐ Property insurance ☐ Flood insurance

You may obtain the insurance from anyone you want that is acceptable to creditor

☐ If you purchase ☐ If you do not want insurance from creditor you will pay $ for a one year term.

SECURITY: You are giving a security interest in:

☐ The goods or property being purchased ☐ Real property you already own.

FILING FEES: $

LATE CHARGE: If a payment is more than days late, you will be charged % of the payment

PREPAYMENT: If you pay off early, you

☐ may ☐ may not ☐ may not be entitled to a refund of part of the finance charge.

ASSUMPTION: Someone buying your property

☐ may ☐ may not ☐ may not assume the remainder of your loan on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds and penalties.

* means an estimate ☐ all dates and numerical disclosures except the late payment disclosures are estimates.

☐ NO: The Payments shown above include reserve deposits for Mortgage Insurance (if applicable), but exclude Property Taxes and Insurance.

THE UNDERSIGNED ACKNOWLEDGES RECEIVING A COMPLETED COPY OF THIS DISCLOSURE.

John Doe  (Applicant) (Date)  (Applicant) (Date)

(Lender) (Date)
**FNMA**
**FIXED RATE CONFORMING PRODUCT**

**LOAN CODE:**
- CFT-25/30 Year Amortization
- CFT6-20 Year Amortization
- CFF-15 Year Amortization
- CFF3-10 Year Amortization

**MASTER CODE:**
Refer to Commitment Codes Pages CC1 – CC-4
EEM – Energy Efficient Mortgage

**LOCK - OPTIONS:**
Refer to Price Sheet for lock options
Sollen Locks-
Loan Type is Conforming

**MINIMUM MORTGAGE:**
None

**MAXIMUM MORTGAGE:**
Currently published FNMA/FHLMC loan limits.

**MAXIMUM LTV & CLTV:**

<table>
<thead>
<tr>
<th></th>
<th>PURCHASE</th>
<th>LIMITED CASH</th>
<th>OUT REFINANCE*</th>
<th>CASH OUT</th>
<th>REFINANCE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 &amp; 2 Unit Principal Residence:</td>
<td>95% / 95%**</td>
<td>90% / 90%**</td>
<td>75%*** / 75%**</td>
<td>75%*** / 75%**</td>
<td></td>
</tr>
<tr>
<td>3 &amp; 4 Unit Principal Residence:</td>
<td>80% / 80%**</td>
<td>80% / 80%**</td>
<td>75% / 75%**</td>
<td>75% / 75%**</td>
<td></td>
</tr>
<tr>
<td>1 Unit 2nd Home:</td>
<td>95% / 95%**</td>
<td>95% / 95%**</td>
<td>60% / 60%</td>
<td>60% / 60%</td>
<td></td>
</tr>
<tr>
<td>1 &amp; 2 Unit Investment Property:</td>
<td>90% / 90%**</td>
<td>90% / 90%**</td>
<td>50%**** / 50%</td>
<td>50%**** / 50%</td>
<td></td>
</tr>
<tr>
<td>3 &amp; 4 Unit Investment Property:</td>
<td>75% / 75%</td>
<td>75% / 75%</td>
<td>50%**** / 50%</td>
<td>50%**** / 50%</td>
<td></td>
</tr>
</tbody>
</table>

*Cash-Out Refinances are not allowed in Texas, Borrower cannot receive ANY cash on limited cash out refinance.
**When subordinate financing is involved the maximum LTV on the 1st mortgage cannot exceed 75%. Refer to DESKTOP UNDERWRITER® VARIANCES for 80/10/10 & expanded LTV/CLTV options.
***Refer to DESKTOP UNDERWRITER® VARIANCES for 90% LTV cash-out refinance.
**** Refer to DESKTOP UNDERWRITER® VARIANCES for 85% & 70% cash-out refinances.

**ELIGIBLE PROPERTIES:**
- Detached Single Family
- Attached Single Family
- 2 to 4 Living Units
- Condominiums - Type A Warrantable-Requires use of the "Spot Condominium Loan-Association/Management Warranty Letter" (MRO851)-Exhibit-11
- Townhouse Units within a PUD

**INELIGIBLE PROPERTIES:**
- Manufactured Homes

**BUYDOWNS:**
- Maximum Rate Buydown: 2%
- Maximum Buydown Terms: 10 Years
- Maximum Rate Increase: 1% Annually
- Maximum Buydown Interval: 12 Months
- Qualifying Rate: Use bought-down rate for principal residence NOTE rate for 2nd Home.
- Not Allowed: Cash-out Refinances/Investment property.
Must be disclosed and acknowledged on the appraisal.

**MORTGAGE INSURANCE:**

Principal Residence & 1 Unit 2nd Home
30 & 25 Year Amortization  20 & 15 Year Amortization

Required Coverage*:

- 95% - 90.01% LTVs – 30%
- 90% - 85.01% LTVs – 25%
- 85% - 80.01% LTVs - 12%

Investment Property
30, 25, 20 & 15 Year Amortization
90% - 80.01% LTVs – 25%

*Reduced MI coverage as indicated by Automated Underwriting findings is acceptable. Custom coverage is not acceptable.

**Acceptable Terms:** Standard annual renewal, monthly payment, post-paid and financed

**Acceptable Companies:** PMI, RMIC, GE, UGMIC, TRIAD & RADIUS

**ASSUMABILITY:** No

**ESCROW WAIVERS:** Available – Refer to Price Sheet.

**ACCEPTABLE STATES:** REFER TO APPROVED STATES MATRIX IN THE MANUAL

**UNDERWRITING / SUBMISSION PROCEDURE:**

Loans must be underwritten through FNMA Desktop Underwriter®.*

WHOLESALE:
All loans should be submitted through DU™ and send the original file and a copy package, with AUS findings to WAMCo Wholesale Operations Center in Schaumburg, Kansas, Arizona, or Walnut Creek.

CORRESPONDENT:
Correspondents that utilize Automated/Contract Underwriting should note any DU variances being utilized at the time of submission. Approved contract underwriters are PMI, UGIC, and Radian.

*Loans receiving Refer With Caution may be eligible for FNMA Expanded Approval with Timely Payment Rewards Program. Refer to EXPANDED APPROVAL / TIMELY PAYMENT REWARDS Product Write-Up in this Section.

**UNDERWRITING RATIOS:** Per AUS Findings

**CREDIT RISK SCORES:** Requires a minimum of 3 scores for each borrower along with the standard credit risk determination of the appropriate Indicator Score.

**DOCUMENTATION:** Desktop Underwriter® will determine level of documentation required depending on the overall risk evaluation of the loan.

**SALES CONCESSIONS:** Lesser of Sales Price or Appraised Value

- 2% Maximum - Investment Property
- 3% Maximum - Principal Residence or 2nd Home > 90% LTV
- 6% Maximum - Principal Residence or 2nd Home ≤ 90% LTV
- 9% Maximum – Principal Residence or 2nd Home ≤ 75% LTV

Must be disclosed and acknowledged on the appraisal.
ADDITIONAL CONSIDERATIONS:

INVESTMENT PROPERTY:
- Required 6 months reserves
- Refer to DESKTOP UNDERWRITER® PROGRAM VARIANCES page F - 23
- Energy Efficient Mortgages
- Purchase & Rate/Term Refinance
- New and existing homes
- 95% LTV maximum allowed when including energy upgrades.
- Monthly energy savings are deducted from PITI to qualify borrower for higher mortgage amount.
- Value of energy efficient measures is included in the LTV calculations.
- Cost of energy improvement for an existing home cannot exceed 15% of the appraised value and 100% of the improvement can be financed as long as within maximum LTV guidelines.
- Home Energy Rating supplied by a Home Energy Rating Provider is required. A list of Home Energy Rating Providers for each state is located at www.natresnet.org/dir/raters.
- Energy improvements for existing home must be completed and all escrow funds disbursed within 120 days from closing.

DISCLOSURES:
- Conventional Fixed Rate Mortgage Advance Disclosure (MRO411)-Exhibit-3

CLOSING DOCUMENTS:
- FNMA Multi-State Fixed Rate Note form 3200 or appropriate state specific equivalent
- FNMA Uniform Mortgage/Deed Of Trust for applicable state
- FNMA Multi-State Condo Rider (if applicable)
- FNMA PUD Rider (if applicable)
- FNMA One to Four Family Rider (if applicable)
GN Mortgage, LLC.

LOAN AUTHORIZATION

<table>
<thead>
<tr>
<th>Broker</th>
<th>Lassiter Mortgage Group LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower(s)</td>
<td></td>
</tr>
<tr>
<td>Property Address</td>
<td>Joliet St, Aurora, CO 80010</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$132,000.00</td>
</tr>
<tr>
<td>Sales Price</td>
<td>$132,000.00</td>
</tr>
<tr>
<td>Appraised Value</td>
<td>$132,000.00</td>
</tr>
<tr>
<td>LTV</td>
<td>100.00%</td>
</tr>
<tr>
<td>CLTV</td>
<td>100.00%</td>
</tr>
<tr>
<td>Note Rate</td>
<td>9.400%</td>
</tr>
<tr>
<td>Qual Rate</td>
<td>9.400%</td>
</tr>
<tr>
<td>Margin</td>
<td>2.750%</td>
</tr>
<tr>
<td>Index</td>
<td>5.387%</td>
</tr>
<tr>
<td>Caps</td>
<td>6/2/6</td>
</tr>
<tr>
<td>FICO</td>
<td>679</td>
</tr>
<tr>
<td>Loan Program</td>
<td>00195 5/6 ARM Mortgage Advantage - No MI</td>
</tr>
<tr>
<td>Target Inv</td>
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<td>Prod Code</td>
<td>1154</td>
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<tr>
<td>Doc Type</td>
<td>Full doc</td>
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<tr>
<td>Property Type</td>
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<tr>
<td>Loan Term</td>
<td>360</td>
</tr>
<tr>
<td>Int Only</td>
<td>X Y_N Term</td>
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<td>PPP</td>
<td>Y_X</td>
</tr>
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<td>Purchase</td>
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<tr>
<td>Loan Type</td>
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<td>Occupancy</td>
<td>Investment</td>
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<td>Impounds</td>
<td>Taxes and Ins</td>
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<tr>
<td>Credit Document Expiration Date</td>
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<tr>
<td>FNMA Special Feature Cd</td>
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<td>FHLMC Characteristic Cd</td>
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<tr>
<td>AUS Decision</td>
<td>Case No/Key No:</td>
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<tr>
<td>Debt/Income</td>
<td>48.018% Housing/Income</td>
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<tr>
<td></td>
<td>31.198% Max Qualifying DTI</td>
</tr>
</tbody>
</table>

Lock Expiration Date
Broker Yield Spread:

FHA/VA Information

| Base Loan Amount | $ |
| Total Loan Amount | $ |
| FHA Case # | |
| Old Case # | |

Underwritten by Jane Geisick. My phone number is [redacted]. Conditions can be sent to me via fax [redacted] or e-mail [redacted].

This loan is approved subject to the following conditions:

Please include a copy of the Hazard Insurance Binder with all document/closing requests as GN Mortgage cannot draw documents without it.

All Borrowers are required to provide legal identification documentation (i.e. driver's license, passport, state ID, etc) at the loan closing.

Mers and Min Number: [redacted] This MERS number must be used when ordering documents through a doc prep service. Sec. Instr. must contain MERS language.

Please return all the following conditions to GN Mortgage at one time:

66/115.....Final 1003 --- send to closing for signatures (GN)
66/158.....GN: Verbal VOE w/Employer(s) verified through directory
66/432.....Flood certification ---GN to provide
66/001.....Cash to close not to exceed $1692 or additional assets must be verified. (currently $8695 verified)
66/002.....Full appraisal with income approach completed. Subject to review. Review ordered 11/2. Estimated turn time 5 days. (PTF per AE and broker request)
66/003.....Borrower to sign/date 4502T -- GN to execute. (executed -- okay to fund prior to receiving results back.)

GN Mortgage Thanks You for your Business!

LOAN NUMBER: [redacted]

Condition Type(s): 65 = Prior to Docs, 66 = Prior to Funding, 67 = Closing

In all cases, this loan authorization/approval, and any commitment obligation expressed or implied herein, is subject to revocation/unilateral rescission by GN Mortgage, up to the time of loan consummation, if any information relied upon in making our credit decision is supplemented or corrected and thereby, in GN Mortgage's sole opinion, negatively affects the credit risk, or called into question the marketability of the loan.

Authorized Signature
Authorized Signature
Loan # [redacted] Brokher Fax Number (303) 572-7647 Underwriter Jane Geisick
Area Manager: Julia E. Koontz

Page 1

600271 (08/06)
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