

***Lincoln Trust Mortgage* News - Vol. 2. No. 1**

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It's long overdue for another newsletter.....and the market turmoil is begging for it!

INTRODUCTION

I am using this newsletter to stay in touch with my clients and business partners. As always, if you feel I am cluttering up your mailbox, just reply with a "please remove me from your mailing list".

Also if you would like to look at previous newsletters, please see my website: www.lincoln-trust.com and look at the "news archive" button.

MARKET NEWS

WOW! It is unbelievable how quickly an entire business sector can literally implode! Of course I'm talking about the sub-prime mortgage marketplace. All of the companies I deal with have been affected and most of them have closed their doors. New Century Mortgage filed for bankruptcy protection last week and over the past several weeks, Fremont Investment and Loan, Mortgage Lenders Network (MLN-USA), and Southstar Funding have abruptly closed their doors. Option One (owned by H&R Block) has been looking for a buyer for months. In all, 56 lenders have gone from the business thus far and there are many more that are hurting badly.

What does this mean to the market? Right now getting a second mortgage in the sub-prime world is very difficult which means 100% financing right now is non-existent in the sub-prime market. A year ago I was able to get first-time home buyers with 580 FICO scores 100% financing with 80% and 20% loans (no primary mortgage insurance required) for 6.75% and 10.5% fixed interest rates respectively. Right now, those days are gone. You can still get 95% financing but the rates have drastically increased to 8.75% and higher and about the lowest the lenders will go is 600 FICO mid-score. There are still many direct lenders in the sub-prime market. These are lenders that fund and hold the mortgages themselves in their own investment portfolio. In fact, many of the companies in trouble are being bought very cheaply to become part of the largest lenders (Bear-Sterns, Morgan Stanley, Merrill Lynch, Lehman Brothers, GMAC Financial Services, etc.)

The good news is the A-paper market has been largely unaffected. With the prime rate holding steady at 8.25%; I have been obtaining funding for my clients with good credit histories, new loans at 5.875% to 6.125% for 30-year fixed for all of 2006 and to the present. Things just haven't moved much at all.

In between A-paper and the sub-prime worlds is a growing area of Alternate-A paper where more flexibility is given to special-case loans and not a requirement to pay a large premium in rate. Here you can still get 100% financing with 50% debt-to-income, and use deposits from your business or job into the bank versus supplying W-2s. FICO scores generally start in the 620 range.

But guess what? Freddie Mac and Fannie Mae have been loosening their guidelines for direct A-paper lending. I have gotten loan approvals for people with FICO scores below 600 and given the best rates available. Where they were very stringent of maximum 38% total debt-to-income just a couple years ago, I recently had a client approved at 58% debt-to-income in straight A-paper. You can never be sure of approval, but it is always worth a try.

Where is the market going from here? Nobody knows. The housing sales are flat but looking at signs of improving with spring arriving. House prices are definitely lower than 6 months ago. So people with reasonable credit are now going to afford the house they wanted last year and still they can get a 6% loan.

PRIVATE MORTGAGE INSURANCE and MORTGAGE LIFE INSURANCE explained

Private Mortgage Insurance (PMI) is the mortgage insurance you pay to protect the lender when borrowing over 80% of the house value. This insurance covers the lender in case of default on the loan. In virtually all cases the consumer will have a lower monthly payment if the loan is split in 2 pieces keeping both loans under 80%. PMI is expensive. It is almost 1% of the total loan amount paid monthly for 100% financing with one loan. On a \$200,000 home the PMI payment would be \$160.00 per month. After the loan is paid down to 78% of original amount, the PMI payments can be eliminated by appealing to the mortgage company.

The government finally made one major change which begins this year relating to PMI. Starting in 2007, PMI payments are tax deductible just like mortgage interest. This makes it a little more competitive with having 2 loans (where all of the interest has always been deductible). I still find the total payment is lower having 2 loans which is what most of my clients opt for.

After you close your loan; you go home; and patiently wait for that first mortgage bill to arrive; you will undoubtedly get some mail asking you to sign up for **Mortgage Life Insurance**. This is offered through some deal the mortgage company makes with an insurance provider to have your mortgage paid in full in the case of your death. You will be billed monthly in your mortgage payment for this "death benefit".

My recommendation is that even though the monthly payment will sound low, over the full year it turns out to be quite expensive. In fact, regular term life insurance is often much cheaper and you can get much more of it for the same price. Term insurance payout benefit doesn't degrade as Mortgage Life only pays the mortgage balance.

INEXPENSIVE INSURANCE PROVIDER

Speaking about insurance, I have to tell you about this if I haven't already. This past year one of my clients recommended **AAA Insurance** for both home and car insurance. They said you won't believe how much you will save and it was all true! I have dealt with an independent agent ever since they were able to beat Allstate, Liberty Mutual, etc. I have continued to shop every other year to see if I was still getting the lowest rates. I honestly didn't know AAA had an insurance arm and I only heard bad things about their auto club services.

The processing office for **AAA Northern New England Insurance** (servicing Maine, NH, and Vermont) is in Portland, Maine. Toll-free 1-800-222-3612 or you can dial the representative I deal with directly: Mark Grant 1-207-791-8534. I don't know how pricing would be for Massachusetts residents however since that is another division of the company. I would certainly get a quote from them. **AAA Merrimack Valley Insurance** can be reached at 1-978-681-9200.

SOMEWHAT RELATED LIFE LESSONS

LESSON #1: The NH Better Business Bureau (BBB) called and asked if my company would join up. I have and I'll tell you why. I use their web sites quite often when I am contemplating another business partner (lead source especially). ANYONE can use their services for free and I recommend everyone make a habit of checking the records before you do business with a new company....ANY company. They keep records of all companies whether they are members or not. <http://www.bbbnh.org/> Or nationally to look up the local BBB for an out-of-state company: <http://lookup.bbb.org/>

Get in the habit of checking all companies out before you use them. You'll be glad you did.

LESSON #2: I'm sure most everyone is aware of the statement, "If it sounds too good to be true, it probably is!" Well it doesn't hurt to remind people of that and offer another tool in the fight to uncover false advertising. Without going into the details, my daughter almost became victim to a job offering \$16.00 per hour but in fact became \$16.00 per appointment made (to sell something). They figure the appointments are about one hour long, hence \$16.00 per hour pay. They wouldn't say what the job was until she came in for an interview. She asked if it was door-to-door sales and they said no – which was basically a lie.

On the day before the interview was scheduled to occur, my wife and daughter decided to Google the company name on the internet and lo and behold there was quite a bit of information.....most of it BAD! They sign up college kids to sell the product to their family and friends (not door-to-door they say). This is after they are required to buy their own sample product.

Needless to say she didn't bother going to see them and when they called to remind her of the interview, I explained I didn't appreciate their deceptive ways to get interviews. I also explained that if everyone looked them up on the internet, that they would never get another employee again based on the hateful web pages.

So the lesson is always check the internet before making any big decisions. To uncover issues, use the company name and add "anti", "scam", or "hate" to the search.

Of course you can't believe everything on the web either, but you'll be able to sort out what makes sense and what doesn't. In the case of Vector Marketing, a LOT of people spent many hours documenting the deceptive ways of the company.

IN CLOSING

ALL feedback is welcome! Suggestions for topics in future issues are welcome. Reply with any comments you'd like and remember there are no dumb questions.

All newsletters can be found here: <http://www.lincoln-trust.com/NewsArchive.html>

warmest regards,

--Craig

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