

Wi\$e Up Teleconference Call  
June 30, 2005  
Buying and Selling a Home  
Questions and Answers

Coordinator Thank you. One moment please.

C. Dawkins Do we have questions, operator?

Coordinator Yes, Wendy Sanchez, you may ask your question. Your line is open, Miss Sanchez.

W. Sanchez We have some ladies in our agency that might be first-time buyers. Are there any Web sites out there that would give them a description of like, the new loans that are available? Like bond money type loans, stuff like that?

J. Walstedt Do any of our speakers have a response to that?

S. Garcia This is Susan Garcia. I don't know of any Web sites, other than you can go on the – I might suggest the National Association of Realtors, their Web site [<http://www.realtor.org/>]. There's always information on there about mortgages and the types of mortgages and the money that's available, and they are also a great resource for other links for other organizations. So that may be of help to you.

C. Dawkins                    There's also the HUD Web site for questions on home buying. It's [www.hud.gov](http://www.hud.gov).

J. Walstedt                    That stands for the Department of Housing and Urban Development, HUD.

Coordinator                    Was that all, Miss Sanchez?

W. Sanchez                    Yes, thank you.

Coordinator                    Thank you.

C. Dawkins                    Operator, are there other questions?

Coordinator                    Yes, Donna Waters, you may ask your question.

D. Waters                      Yes, I was wondering if you could discuss the pros and cons of an interest-only mortgage payment.

R. Grant                        Okay, this is Randi, I can take that one. I think that the advantages of an interest-only mortgage payment are that you are not paying any principal [Principal is the total amount of money being

borrowed. It does not include interest.], so you're keeping your payment low. There are some programs out there now, where the interest rate is fixed, and it's a balloon period. For example, you would have an interest-only mortgage, with a balloon in five years. That would be a very good deal for somebody who knew that they would probably move in five years. Before, they would have to be concerned about refinancing the mortgage.

I've also used those types of programs where somebody's wanted to pay off their [existing] mortgage. So we've refinanced with an interest-only program that allows some pre-payment [of principal]. The negative is, of course, the reverse is if you are going to be in the home, and it's a period of rising interest rates, that at the end of the interest-only guarantee period, that the interest rates are prohibitive in terms of refinancing the mortgage. Two, that you're in a period where let's say, you buy a house at a very high [price]—right now you're buying at a very high real estate market-- and real estate prices decline your “loan to value ratio” may not be there, because you haven't been paying off any principal. [According to a glossary for investors on the Ginnie Mae web site—see “For Investors” on the Ginnie Mae home page at [www.ginniemae.gov](http://www.ginniemae.gov) -- the “loan to value ratio” is the relationship between the mortgage loan amount and the appraised value of the property, expressed as

a percentage. It gives the example that if the appraised value is \$200,000.00 and the mortgage amount is \$180,000.00, then the loan to value ratio would be 90%.]

E. Hoffman

This is Ellen Hoffman. I would suggest another disadvantage to that type of loan, and that is that you are not accumulating any equity in your home as long as you're only paying the interest. So the potential uses of that equity that we've been talking about here this morning would not be available for you while you're in that interest-paying phase.

J. Walstedt

This is Jane Walstedt. There was an article in the *Washington Post* on May 28<sup>th</sup> of this year, entitled *Most DC Buyers Choose Interest-Only Loans*. I referred to that in my opening remarks, and what that article says, was that, if the home appreciates, both [the owner with the standard loan and the owner with the interest-only loan] could profit, but if prices fall, the purchaser with the standard loan continues making the same fixed payments. If the interest-only buyer can't come up with the cash to cover a much bigger payment that includes principal, he might have to sell at a loss or face foreclosure. Did anybody have any further comments on that? Okay.

C. Dawkins

Okay, operator, do we have other questions?

Coordinator

Yes, Adria Chamberlain, you may ask your question.

A. Chamberlain

Hello, yes, I was wondering if you had any general advice for those of us who live in extremely expensive areas, like San Francisco, Boston, Manhattan, because I live in Boston and the price of homes here has gone from about \$300,000 for a house five years ago, to literally \$600,000 or \$700,000 for that same house five years later. Is this bubble going to burst? Should I wait until I buy, or is this just going to keep going?

S. Garcia

This is Susan Garcia, and, as I said in my first comments, if I had a crystal ball, I probably wouldn't be doing this. I would probably have [Alan] Greenspan [Chairman of the Board of Governors of the Federal Reserve System] working for me. I don't know; it's hard to say. There are areas of the country--and I would venture to say that Boston is probably one of them--where the bubble isn't going to burst. Economically, you know, the country is doing well. There are many, many parts of the country where you can't expect that to happen. Therefore, you've got to figure out some creative way to try to buy something. I think there are a lot of combinations. Number one, continue to save some money so that

you can put a down payment down. Perhaps you can buy a place, knowing full well, that you're going to be looking for a roommate, or even two roommates.

I've helped a lot of young, single professional women do just that-- buy a small unit in a nice community, in a nice neighborhood, as their first home, and they've had one or two roommates so they could cover the mortgage payments and end up buying something. Then again, looking at the kind of mortgage program, work with a mortgage broker also in helping you come up with creative ways to be able to afford something that might be a little bit more expensive than you think you can afford.

So I think it's a function of really doing some research and spending the time to find something. I know when we work, it's very, very difficult to carve out some time in our days or our weekends or evenings, but if you're serious about buying, I think you have to do some research and homework and really look in neighborhoods and explore what's out there.

R. Grant

All right, this is Randi. I wanted to point out that, in the mid-90s in the Los Angeles area, prices fell by almost 15% within a one-year period. I think that, while we may feel that some areas are

economically stable and immune from declining real estate prices, I don't think there's any guarantee to that.

J. Walstedt                      That's a good point, Randi, because – this is Jane again – my own sister, who bought houses, one's in Colorado and one's in Maine, as I understand lost money on both houses when she and her husband sold. So I guess part of it is the question of timing, and that is what you paid for the house and when you have to sell it.

C. Dawkins                      Thank you, operator, are there other questions?

Coordinator                      Yes, Stephanie Meyer, you may ask your question.

S. Meyer                          Hello, my husband and I bought our first home nine years ago, and we've outgrown our home. We have two kids, and they need to be set in separate rooms now, but we were looking for moving up – I live in the Portland, Oregon, area, and the houses in this area are not going as high as ones in California, but they are pretty steep prices. Even with our equity, we find it very difficult to be able to financially even move up into a new home, and that's the reason why I got on the call, because I was hoping to – we want to move from our first home to our second home, but financially it just seems like a big jump.

E. Hoffman

This is Ellen Hoffman. Let me just mention something that was kind of an add-on to some good information Randi was giving you about sources of financing. I realize this may not be your answer totally to your problem, but in addition to the Roth IRA that she mentioned, you are allowed to take some money out of you 401(k) to buy a home. I will be the last person to ever suggest anybody take money out of their retirement fund if it's not necessary; but if you are quite young, and if you are serious about wanting to buy a home, you can take a loan. It has to be paid back, so you're going to pay interest on it, as you would with any other, but for some people this could turn out to be a source of cash.

The other thing that I would say, more on target, is, "Have you considered whether there might be some kind of improvements, additions, or changes in your existing home, that would be more affordable than having to move to another place?"

S. Meyer

Yes, we've considered that, and actually we're looking at that right now. We were going to be having – we had figured out we would have this home paid off in the next six years, and we were just trying to see if we could just sit tight. It's just small. Thank you.

C. Dawkins            Are there any more suggestions to that question from our presenters? Okay, I would like to ask a question. This is Cynthia. I recently heard that people are now getting 60- to 100-year mortgages to pay for \$500,000 homes. Is this true, and do you have advice on these types of mortgages?

S. Garcia            This is Susan Garcia, and I've never heard of such a thing. So maybe Randi has some information on it.

R. Grant            No, in fact it was yesterday, somebody asked me about a 40-year mortgage. Those are very, very scary concepts.

C. Dawkins            The houses in the metropolitan area are getting so high, and somebody did mention it to me, so I thought I would take –

R. Grant            Was that a private lender, or was that a real bank?

C. Dawkins            Well, I'm not sure. We didn't get into the details, but I was just surprised to hear that information, period.

R. Grant            From the financial standpoint, if you went for a mortgage that long, you would be paying so much money for your house, it wouldn't be funny, because most of what you are paying on the

mortgage--at least in the early years, and I guess on a hundred-year mortgage, the earlier years would be the first 50 years--most of what you're paying is interest anyway.

C. Dawkins Thank you, are there any other questions?

Coordinator Yes, Donna Waters, you may ask your question.

D. Waters I wanted to clarify something that I heard the other day about the interest-only mortgage. Are you exempt from the tax benefits if it's interest-only?

R. Grant No, you still get the full tax benefits by deducting the interest. The only limitations you have, and I should have mentioned this earlier, is that, the tax law allows you to deduct interest on \$1 million of first mortgage debt, and on \$100,000 of a second mortgage. When they came out with this cap on the deductibility of what they call "Qualified Residence Interest," you know, one million dollars seemed like so much money, and it just doesn't anymore. We do have people that can't deduct the full interest on their mortgages because they're so high.

C. Dawkins Okay, any other questions?

Coordinator            One moment, please.

C. Dawkins            Are there any other questions, operator?

Coordinator            Not at this point, ma'am.

C. Dawkins            Okay.

C. Henning            This is Cindy. I actually have a question about reverse mortgages, if someone could just take a moment to explain that process and what that means.

E. Hoffman            This is Ellen Hoffman. A reverse mortgage is something that is helpful to people as they are getting older and retiring, and living on a more limited income than they had in the past. What you do is, in order to qualify, you must have your home paid off, or you must have quite a substantial amount of equity in your home, have it pretty close to paid off. To qualify, you must be 62 years old, and the simplest way of explaining this-- and it's a very complicated issue--is to say that you get a mortgage on that home and, in return, you are paid in one of three different ways for the rest of your life.

Either you can get a lump sum, or you can get a line of credit, or you can get a monthly check. This type of mortgage is most helpful, first of all, if you are getting to that age and you realize you really want to stay in that home, because the short of it is, if you don't stay there, you're going to incur expenses and problems. Secondly, you can use this money to supplement your income, to pay whatever expenses you may have, whether it's drugs that aren't covered by Medicare, or whatever you want to spend it on.

There are closing costs. It can be quite expensive to close this deal, and what happens when you pass away is that the property is going to be sold. You're not going to be able to pass it on to your heirs. For people who are interested in this process and want to learn more about it, I recommend going to the AARP Web site, which is [www.aarp.org](http://www.aarp.org), and type in the search box, "reverse mortgages." That will send you to a lot of very good information that explains it better, including information from HUD, the Federal Department of Housing [and Urban Development]. [Information on reverse mortgages can be found on the HUD website at [www.hud.gov/buying/rvrsmort.cfm](http://www.hud.gov/buying/rvrsmort.cfm).] So this is a very specialized kind of mortgage, and it's only going to be helpful for people as they are getting older.

J. Walstedt                      Actually, Ellen, this might be helpful to some of our Gen Xers who are listening in terms of their own parents.

E. Hoffman                      That's very true.

J. Walstedt                      They could pass this on to their parents, or their parents could read it or listen to it on the Wi\$e Up Web site afterwards. Cynthia is going to give us closing remarks in a minute, but I just wanted to make the observation that--and I think the listeners have heard it already--that both Susan and Ellen are Wi\$e Up mentors. If you're an online participant, and you think of a question after the fact, you can send the question to Wi\$e Up and the mentors – as I said if you're an online participant, the mentors, whichever mentor wants to--and usually it's several--will answer your question.

Unfortunately right now, the answers from the mentors are not available to the general public [the general public cannot send questions to the mentors], and now I would like to turn it over to Cynthia for our closing remarks.