Wi$e Up Teleconference Call  
Real Estate  
May 31, 2006  
Questions and Answers  

Jane Walstedt: Now I’m going to ask the operator to give us instructions on how to ask a question.

       Angie--

Coordinator: Thank you.

       And at this time, if you would like to ask a question, please press star followed by 1 on your touchtone phone.

       You’ll be prompted to record your first and last name.

       Once again, please press star 1 if you would like to ask a question.

Jane Walstedt: Angie, maybe you can indicate to me if and when we have a question.

Coordinator: We actually do have a question now from Sandy Sanchez -- I’m sorry, Wendy Sanchez. Your line is open.

Wendy Sanchez: The question that we have here, we live here in the Midwest -- Kansas City -- and I bought three homes, and I’ve never had --

       The last speaker on this insurance, is that insurance Web site, what is that Web site? And are these rules that they have in Texas, is that nationwide or is that just in Texas?

Gloria LeGrand: Oh, I guess that’s for me. This is Gloria. Some of them are nationwide. Like I said, the policies are different in different states.
However, about three years ago State Farm - I mean our policy conformed to the traditional policies that are used around the United States.

So as far as State Farm goes -- and each company has a little bit, some definitions a little different, but they’re basically controlled and ruled by the State Department [of Insurance].

You should be able to go to your Department of Insurance Web site, which you’re in the Mid -- what state are you in?

Wendy Sanchez: We’re in Missouri, in Kansas City.

Gloria LeGrand: Okay. It should be Missouri Department of Insurance.

There should be a Web site. You can go there and you can look at the different policies sold there and what type of policies. Now a renter’s policy or a dwelling policy, where you’re renting the property out, is different from a homeowner’s policy.

The coverage is not as broad, and it’s just on the house itself, on a dwelling policy, which is [for property] you rent out to other people.

Jane Walstedt: Wendy, are you saying you don’t have any insurance on those three houses?

Wendy Sanchez: No. I’m saying we never had – I never had to do the HOA or the HOW or the HOB.

Gloria LeGrand: That’s different. It’s a dwelling policy that you would have. But still, there are a couple of different versions of that -- of the dwelling policy.
We call it a dwelling policy in Texas, and it covers the dwelling itself, because you are still responsible for replacing, repairing, or doing whatever in case of a loss.

So you really need to check on that to see what type of policy you have on that.

Wendy Sanchez: Okay.

Gloria LeGrand: Okay.

Jane Walstedt: By the way, Wendy, I recognize your name and I know you’ve been on a lot of our calls and we appreciate it.

How many are there in the room with you?

Wendy Sanchez: I have three other ladies with me.

Jane Walstedt: Well, thank you for your participation.

Wendy Sanchez: Since we’re on that, we thought this would be more -- this seems like real estate actions for people who have like a lot more money than just your everyday single woman trying to get a loan for a house.

Are these rules for like the upper -- not upper class, but people that are buying more expensive homes?

I mean like if I was buying a $300,000 home, I would be living in what we call Mission Hills area. I thought the Wi$e Up calls were more for women who are trying to get on their feet and say, get their credit cleaned up and buy a home.
I guess I was thinking maybe [she] was going to speak more about the different kinds of loans they could get, like bond money and stuff like that.

Evelyn Lugo: Jane, this is Evelyn. Can I jump in?

Jane Walstedt: Please.

Evelyn Lugo: I appreciate those comments. And there’s nobody really in today’s marketplace that, if their goal is to purchase a house, cannot put themselves into a position where they can do so.

You mentioned something that’s very important, and that's your credit, and none of us mentioned that today.

Credit -- it should be taught in high school, in junior high school, how important a person’s credit is, because your credit is going to determine whether or not you can purchase a home with no money [down], or whether you’re going to have to have 10% down or 20% down, and what your interest rate is going to be.

So credit is huge.

The federal government has passed a law that states that every person who pays their taxes can get a free credit report every year. I strongly suggest that anyone, everyone, take a look at their credit report every single year because there can be errors on those credit reports.
You don’t want to find out the day that you’re going to purchase that house you fell in love with, that something’s on your credit report that’s not going to allow you to finance that property.

And obviously, you can’t purchase a property unless you can get financing, unless you’re living in that area that you mentioned where maybe somebody can buy it cash. But that’s not the norm.

People don’t buy prop -- real estate -- for cash for the most part. We’re looking for financing, and we’re looking for the best possible terms.

What I would say to you is that you probably -- any woman who wants to purchase real estate -- should talk to a mortgage lender. Have the mortgage lender run their credit report. Have the mortgage lender tell them what their status is today, what it is that they could finance them for, what type of programs are available.

Your mortgage lenders out there have a lot of information. Are there any local government loans available?

Here in Washington, DC, we have first-time buyer programs all over the place. The city gives you money. The Federal government gives you money.

But the mortgage lender is going to be the easiest way for you to find those resources and also to be able to take a look at your credit and see where you stand.

It may be that you can’t do something today, but they can tell you when -- what you have to do to clean it up so that you can do
something tomorrow. Because the market has shifted, and it is becoming more of a buyer’s market now than a seller’s market nationwide. You can now go into the real estate market with no money. They’re doing it here now.

I did it way back when. You know, there was that six to eight year period that if you had money, you weren’t going to - even if you could get the financing, you weren’t getting sellers who were going to take 100% financing because they had six other offers with 20% down.

But that’s changed now.

So if you want to buy a property, contact a mortgage lender. Find out if you qualify for what kind of loan. If you don’t have cash, see if you qualify for 100% financing. And if you do, then when you connect with your buyer broker who, by the way, I forgot to mention earlier, you don’t pay your buyer broker. The seller pays the buyer broker.

So this is a service that comes free to you. So you should use it.

Now, you’d let your buyer broker know this is a 100% financing package and I have no money.

So when they – so that when your buyer broker writes a sales contract on that property that you dreamed of, they get 3% back from the seller for your closing costs. And that’s how a woman who doesn’t have a savings account, and has decent enough credit to get a mortgage -- a 100% mortgage -- that’s how you buy property without any money.

So for all those, you know, commercials you’ve seen on television, buy this package, buy that package, you know, you can buy with no money
down. Yeah, you can buy. Don’t waste your money on that package though. Go right to your mortgage lender.

Nancy Flint-Budde: Yeah. I’ll piggyback on that, too. This is Nancy; I’m a financial planner.

Just to say that you, as a first-time homebuyer, if you are under certain income guidelines, you will receive a preferred interest rate, which is perhaps a lower interest rate than somebody who’s one of these high income people might be able to get.

You - there are specifically first-time homebuyer programs, and a first-time homebuyer nationally is typically defined as somebody who has not written off interest on their tax return within the last three years.

So there are programs available to you, and you know, call your local lenders. Ask them what programs there are in your area, or find yourself a buyer broker, because they’re going to know which programs are right for you.

Jane Walstedt: Could one or more of our speakers speak to the different kinds of financing options and the pros and cons of the different ones?

I know here in the Washington area apparently a lot of people are buying --using interest-only loans, but there are pitfalls to some of these loans when they are adjustable rate mortgages.

So the payment may go up very suddenly and people may not be able to keep affording to make those payments.

So could one or more speakers speak to that?
Evelyn Lugo: Well, this is Evelyn.

And I would say that we saw a lot of interest-only loans. That’s another type of loan that’s available out there.

And it sounds very appealing to you when it’s quoted to you because the monthly payment is so much lower than it would be if you were taking a conventional loan or even an adjustable rate mortgage. That interest-only loan looks wonderful on paper.

However - and it was wonderful. And the reason it came up was because property values kept going up. So you could get an interest-only loan and you knew that your property value was going to continue to increase, so it [your property] was always going to be worth more than that loan.

But understand that when you have an interest-only loan -- and all lenders have this now -- so be careful of it, because property values are no longer jumping by double digits.

They’re jumping by one, and we don’t know which way it’s actually going to go. We’d like to think that it levels off.

With an interest-only loan, you’re not putting any money down towards the principal of the property.

So if the market does go down, you could end up with a loan that is higher than the actual value of the property. If you find yourself in a position where you have to sell that property before the market changes and goes back up, you could end up owing money on the
mortgage than, more money on the mortgage than you can sell it for, and that’s where you’re going to start seeing foreclosures and things like that.

The adjustable rate mortgage is a great program for someone who is just starting off. Let’s say you’re just out of college, you got your first job, you know that in another five years you’re going to be, you know, you’re going to be upgraded, you’re going to be making a lot more money.

An adjustable rate mortgage allows you to get in, afford a little bit more because the payment is lower and the interest rate adjusts over a certain period of time.

The five-year ARM [adjustable rate mortgage] seems to be the most popular. But at that point, then you’re at, you know, the regular interest rate, and that payment goes up. So that’s why the adjustable rate mortgage is great for the person who is just starting off in their career and they know they’re going to make more money then.

It’s also great, for instance, for the person who knows they’re only buying short-term. This is my first place. I’m going to hold it for three to five years; then I’m going to sell it.

In that case, why not make your payment smaller than doing a regular conventional fixed rate mortgage? Keep the payments smaller if you know you’re going to sell it.

So once again, we go right back to talk to your broker -- your buyer broker -- talk to your lender about what your goals are with that
particular investment, and they will help guide you as far as the financing is concerned.

Jane Walstedt: Thanks, Evelyn. Angie, do we have another question?

Coordinator: Thank you. Our next question comes from Joanne Ekeledo.

Your line is open.

Joanne Ekeledo: Hi. Good afternoon. This question is for Evelyn. Actually, I have two questions.

I’m currently in the process of selling my first home, with the intention of buying another home. What percentage rate should I be looking towards as far as selling my home -- percentage rate that I pay to the sales agent?

Evelyn Lugo: Your commission.

Joanne Ekeledo: The commission.

Evelyn Lugo: Okay. What area in the country do you come from?

Joanne Ekeledo: Maryland.

Evelyn Lugo: In Maryland. Well, Maryland - Maryland, DC and Virginia, the average commission rate, which you’re probably already aware of, is 6%.

Joanne Ekeledo: Okay.
Evelyn Lugo: Now, if it is - and if you take a, you know, don’t take my word for it. What you do is you pull up listings that are available and you take a look at what the commission rate is.

You’re only going to see half of whatever it is on an MLS [Multiple Listing Service] sheet, for example, because all you’re seeing really is what they’re paying the buyer broker.

Joanne Ekeledo: Okay.

Evelyn Lugo: So when you sign up, when you list up with an agent, what’s going to happen is you’re going to negotiate what your [the agent’s] commission’s going to be.

Normally, it’s somewhere between 5% to 6%.

Joanne Ekeledo: Okay.

Evelyn Lugo: That agent isn’t going to make 5% to 6%. That commission is then split in half with the buyer broker, the person who’s bringing in the buyer, who you’re going to sell your property to. So now, let’s use this 6% number.

That 6% now becomes 3% to your listing agent and 3% to your buyer broker. And then those two agents who actually did the work take their little 3% back to the company, and then they have to give their company some of the money.

So a lot of people don’t understand that. That agent isn’t making 5% or 6%.
Joanne Ekeledo: Okay.

Evelyn Lugo: In fact, it’s going to be less than half of what that amount is.

But just - I think I know where you’re going with the question. If you’re going to sell and you’re going to buy, and you’re somewhere in the same area, you may want to negotiate with the agent and say, listen I’ll sign a buyer brokerage agreement with you. You do both sides of the transaction and take the listing for 5%.

Joanne Ekeledo: And actually, I’m buying at another - I’m buying in Pennsylvania.

Evelyn Lugo: Yeah. Well then in that case, you don’t have that advantage.

Joanne Ekeledo: Okay.

Evelyn Lugo: But depending on where in Maryland you are, you may want to take a look first to see what the average commission is. Where are you in Maryland?

Joanne Ekeledo: Baltimore.

Evelyn Lugo: Yeah. In Baltimore, you may be able to find a realtor who’ll do it for 5%. In fact, I’m sure you can in Baltimore.

Joanne Ekeledo: Okay.

My other question was regarding appraisal of the house. How limited are you to listing the house at the appraisal value?
Evelyn Lugo: Okay. I’m going to answer that so that it’s broad for everybody in the country because this is done the same way everywhere.

Joanne Ekeledo: Okay.

Evelyn Lugo: There are two different instruments. A real estate agent can only provide you with a market analysis. It’s -- a market analysis takes a look at, goes into the multiple listing service and takes a look at what has sold in their area that they can compare that to.

So it’s called a comparative market analysis.

So they can pretty much tell you everything that the actual appraiser is going to see, and I’ll tell you what the difference is, because they’re both looking at the same tool. The appraisal will take it one step further.

Now, what’s the difference?

So you can have your agent give you a market analysis. So this will show all the comparables in your neighborhood, and then let’s say, [the property] goes under a contract.

Well the buyer-lender is then going to order what’s called an appraisal. Those are two different instruments. But the appraisal is required by the lender because the lender doesn’t want to finance something for more than it’s actually worth.

So then the appraiser goes out to the property and takes a look at it, takes pictures, comes back to the same MLS system that all the
realtors put their sold information into. It has to pull out three comparables that sold within the last six months.

And then he determines, he or she determines what they feel the property’s value is. They will also go to city records.

For instance, there may be For Sale by Owners and things that are sold in the neighborhood that don’t show up on the realtors’ multiple listing service.

So they will take that extra step.

Now, those two numbers can be completely different from each other. But one thing you have to be completely clear on wherever you are in the country is that you can ask whatever you want for your property.

You can get somebody out there that thinks it’s capital just like you do; however, the lender and the appraiser are going to be looking at it completely differently.

And even if - let’s use $100,000 as a sales price, you put it out there for $100,000 -- the buyer came in and paid $100,000, but when the appraiser comes in, he says, no, no, no, $90,000.

Well, guess what, either you’re going to negotiate that difference or the buyer’s going to pay the difference or the deal is off because they can’t get a loan if the property doesn’t appraise out.

So when you’re pricing your property, pay attention to the comparables, because even if you get somebody out there to pay you more than it’s worth, the deal will end up falling apart in the end.
Joanne Ekeledo: Thank you.

Jane Walstedt: Thank you, Evelyn. We’re almost at the hour, but I want to allow one more question.

Do we have another question, Angie?

Coordinator: We have no further questions.

Jane Walstedt: Okay.