

Wi\$e Up Teleconference Call
November 30, 2006
Becoming Credit Smart, Part II
Speaker 4 – A.W. Pickel, III

Jane Walstedt: And now I'd like to turn the program over to Gail Patterson, a member of the Wi\$e Up Teleconference planning team in Washington, DC, to introduce our fourth speaker. Gail--

Gail Patterson: Thank you, Jane.

A.W. Pickel, III is President, CEO and founder of Leader One Financial, one of the leading regional mortgage lenders in the Midwest. His vision has taken Leader One from its simple roots as a mortgage brokerage in Lenexa, Kansas, and grown it into a full-service mortgage banking operation approved to underwrite conventional and government loans.

Mr. Pickel is a well-renowned member of the mortgage industry. He's been serving on the Freddie Mac LP Advisory Committee since 2004. From 2003 to 2005, he was also a member of the Fannie Mae Housing Impact Advisory Council.

From 2003 to 2004, Mr. Pickel served as President of the National Association of Mortgage Brokers (NAMB). During this time, he testified before members of the U.S. House of Representatives regarding protecting homeowners from abusive lending practices. He also served in many roles within the NAMB from 1995 to 2003, including seats on the Board of Directors and various committee chairs.

Mr. Pickel has been widely interviewed and quoted in the Associated Press, the *Wall Street Journal*, the *New York Times*, *USA Today*, *US News and World Report*, CNNfn, and *The Washington Post* among others.

Additionally, Mr. Pickel frequently speaks at industry conferences and contributes to mortgage industry publications. Mr. Pickel received his Bachelor of Science in Accountancy at the University of Illinois at Urbana-Champaign and attended Wheaton Graduate School.

Welcome, A.W. Pickel, III.

A.W. Pickel, III: Thank you. I always wish my mom could hear people when they say that. Are we there?

Jane Walstedt: Yes.

A.W. Pickel, III: Okay, good.

Hello, everyone. I want to... I really appreciate being here today, and I'll try to go through this. I appreciate what the previous speaker had to say about being a serial refiner. It's people like her that make my company continue to grow. So, thank you.

I would like to start out by just letting everyone know that one of the key things I want you to focus on before you go to those banks is your credit score. And someone earlier said that it is possible to get a copy of your credit report, and I would highly recommend you do that. [To access a free copy of your credit report, visit www.annualcreditreport.com.]

On some of those [Web sites] where they give you the free copy of your credit report, I don't know if they will let you obtain your credit score, but some of them do. I know it seems to vary because I actually went through that process myself because I wanted to see how it worked. But you really do need your credit score, and I'll define that as follows.

When you walk into...whether you're buying a house or buying a car or getting a financial planner or doing anything, information is always key. And the more information that you have in any type of purchase of anything really, the better prepared you are. And information in the case of getting a mortgage or refinancing involves knowing your credit score.

For instance, if your credit score was 490--which would mean that there are several derogatory items most likely on your credit report--it's going to be very difficult for you to get a conforming loan like those rates you see advertised in the Sunday paper or, as the previous speaker said, on Yahoo! Finance or www.bankrate.com or wherever. ["Conforming loans" are those with an unpaid principal balance less than or equal to a specified amount, referred to as the conforming loan limit, which is based on home prices as measured by the Monthly Interest Rate Survey. In 2006, the conforming mortgage loan limit was \$417,000 for a single-family home. For properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands, the loan limits are 50 percent higher. A jumbo loan, also known as a nonconforming loan, exceeds the set limit and usually carries a higher interest rate.]

If your credit score is 620 or higher, most likely you can get those very competitive [interest] rates. If it's between 550 and 580, there are some other rates that are not as bad as you might get if you would have had a 490. If it's between 580 and 620, you still might be able to get those very competitive rates.

The reason that I want you to know your credit score is because, with that information, then you won't have someone telling you...and I had this happen actually, where people have come back to our company, and I'll give you an example, and I will name names.

A gentleman who had over a 700 credit score had an 18% interest rate on his mortgage loan. And I asked him how he got it. And he said, "I simply went to [...], and they looked at me and said, 'Well, your credit is okay, but this is the rate we'll give you.'"

Obviously, we took that rate to a very par rate. That was in 1998 when we did it. That was one of the large refinancing years, and I think he ended up with somewhere right below six [percent] or something like that. The low rate that year was about 5.375 [percent] on a 30-year fixed loan.

So, you need to know when that mortgage banker, that savings and loan, that bank, that credit union is talking to you about rates, you need to know what your credit score is.

The second thing that I would like to encourage you to do if you're in the process of purchasing a home or refinancing, is to take advantage of the automated underwriting system...and by that [I mean].... Both Fannie Mae and Freddie Mac have what they call proprietary underwriting systems-- Desktop Underwriter for one, Loan Prospector for the other. [For information on automated underwriting systems such as Fannie Mae's Desktop Underwriter®, see Fannie Mae's publication "Is Now a Good Time to Refinance?" at <http://www.fanniemae.com/global/pdf/homebuyers/refinance.pdf>. (Reference are on pages 13 and 21)].

In recent years, they have tried to adjust these systems so they approve more and more people, so you also want--when you're talking to someone about refinancing--to ask them if they're going to run it through it [through the proprietary underwriting system] because those systems will approve a much larger range of loans and consequently then you can get what again I said was a conforming rate.

I'm glad the previous speaker brought up points. [A point is an upfront cash payment required by the lender as part of the charge for the loan, expressed as a percent of the loan amount; e.g., "3 points" means a charge equal to 3% of the loan balance.] I think that's very good to talk about, and also the charges that you might incur. They do vary from lender to lender.

And here's what I want you to do when you go on that...I'll give you an example. A friend of mine--Jeff--came to me and said, "A.W., I'd like you to refinance my house." He said, "Will you offer me what Quicken [Loans] will offer me?"

And I was offering him at that time 5.875 [percent interest rate] with no points. And he said, "Well, Quicken offers me 5.625 [percent interest rate]."

And I said, "Well, that's a very good rate, Jeff." I said, "Would you mind if I just went and checked it out?"

And so I went to the same Web site, looked at it, and they were charging two points, which meant 2% of the loan amount. In Jeff's case, his loan [amount] was \$200,000, [and] that would [have meant he'd have to pay] \$4000 for [the points on a loan with an interest rate of] 5.625 [percent].

And so I called Jeff back and I said, "Jeff, I'd be happy to give you that rate, and I'd be happy to charge [you] the two points that they're charging, as well."

"But," I said, "if you'd like, what I can do is actually, if you want to pay two points, my rate is 5.375 [percent]."

And so, it's... look at the fine print. So here's how you do it. You get the rate, and then you call that lender, whether it's local or not, and you ask them to guarantee it in writing.

And you actually want a good faith estimate at the same time. And I mean guarantee. And you ask them to put it in writing. If they don't respond within a day, it means most likely that they were what we call a liar broker, putting the very best rate out there that they can think of, just so they could get you to call. [See "A Consumer's Guide to Mortgage Lock-Ins," The Federal Reserve Board, at www.federalreserve.gov/pubs/lockins/default.htm for information on guaranteeing the interest rate you've been quoted.]

The second thing I want you to ask that lender is if they –ask if they can offer you all programs, and by all programs I mean both conforming, which those of us in the industry would know as conforming conventional loans which would go up to the loan amount of \$417,000 - do I need to stop?

Jane Walstedt: No. Go ahead.

A.W. Pickel, III: Okay. I thought I heard someone say, "Stop."

Jane Walstedt: No.

A.W. Pickel, III: ...Government loans [are another type of loan], and then there is what I call non-prime loans, which a lot of people had gotten into in the past few years, and we don't have time to go into that, but I'd be happy to talk about that at another time. I want you to be very careful of those.

[Non-prime] loans carry prepayment penalties [fees a borrower pays a lender when the borrower repays a loan before its scheduled time of maturity], which can at times be helpful but sometimes [can] put you in a world of hurt. Also,

a 228 [loan] where it's fixed for two years and then you can have as much as a 6% adjustment every year thereafter.

I want to comment on the modifications. I would ask...also, encourage you to seek a modification. There are two kinds of modifications. One is there... every adjustable rate loan has a built-in modification --it can be converted to a fixed -- called a convertible ARM. [A convertible ARM is an adjustable rate mortgage that can be converted to a fixed-rate mortgage under certain circumstances.]

Most of the time, however, like the previous speaker said, those will not be beneficial. That rate will actually be higher than if you went out on the open market to get a new mortgage.

There's another kind of modification that if your lender holds your note and also holds the physical note itself -- not just the servicing portion of it -- the lender can actually modify that note. [But] that's fairly unusual in today's market.

I noticed there's a lady [on the call] from Mazuma Credit Union, and they're actually here in Kansas City, and I do believe they hold some of their notes [this way]. They could actually do a modification.

I'm a seller/servicer, which means I actually service some of my loans. Some of those loans that I hold, I could do a modification on. The loans I do not hold that I just sell the servicing on, I could not modify those. [You can find information on "Your Rights and the Responsibilities of the Mortgage Servicer" on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at <http://www.hud.gov/offices/hsg/sfh/res/rightsmtgesrvcr.cfm>.]

There also is a way to get cash out above 80% without getting mortgage insurance. It's called doing two loans. I would like to caution you against that simply because most of those would involve a HELOC, which is a home equity line of credit. [A home equity line of credit is a method of borrowing in which a homeowner may borrow against home equity as needed using a checkbook or credit card. It differs from a standard loan in that the borrowing may be done over a period of time, preventing excess borrowing and limiting interest costs.]

A HELOC...the danger point to that...I just talked to a lady actually two days ago. She and her husband...he just got back from Iraq. He's on a fixed income. They were given a pay-option ARM, which is...that's a negative amortization loan. [An option ARM is an ARM on which the interest rate adjusts monthly and the payment adjusts annually, with borrowers offered options on how large a payment they will make. The options include interest-only, and a "minimum" payment that may be less than the interest-only payment. The minimum payment option results in a growing loan balance, termed "negative amortization". For more information on option ARMs, please visit

http://www.mtgprofessor.com/Tutorials2/option_arm_tutorial.htm.] That is not the right loan for them. They were also given a home equity line of credit.

The home equity line of credit...the principal balance has never gone down. It's only gone up because they thought they could get away with paying the minimum--something like with a credit card--on their house.

We're going to try to get them out. Unfortunately, the lender that gave them this [this mortgage] also put a prepayment penalty on there [the mortgage], so now I'm trying to call in some bigger guns to help those folks out.

That's it briefly, because I only have so much time, and I'll stop there.

Jane Walstedt: Thank you so much, A.W., for that useful advice.

[For additional information on financing a home, visit <http://www.fool.com/homecenter/finance/finance.htm?source=PFinAg>. The Web site addresses topics such as How Much Can You Afford?, The Anatomy of a Mortgage, The Two Basic Types of Mortgages, Additional Types of Mortgages, The Lender: Bank or Mortgage Broker?, Loans for Sale, Shopping for a Loan, Finding your loan online, Consider a Mortgage Pre-Approval, Six Strategies for Saving Money on Your Mortgage, The Down Payment, Special Loans for Everyone, The Tax Implications of Buying Your Home.

Bankrate.com also provides information on Mortgage Basics on its Web site at <http://www.bankrate.com/brm/green/mtg/basics-toc.asp>.]