Wi$e Up Teleconference Call
May 31, 2007
Home Ownership in Today’s Market
Questions and Answers

Jane Walstedt: Thanks, Mary. This is Jane Walstedt. I’m going to now turn it over to
Kimberly, our operator, to explain once again how to ask a question.
Kimberly....

Coordinator: Thank you. We will now begin the Q&A session. If you have a question or a
comment, simply press “* 1” on your telephone keypad. To cancel, simply
press “* 2”. Once again, it’s “* 1”.

Please stand by while our questions register.

Jane Walstedt: Do we have a question, Kimberly?

Coordinator: Yes, our first question comes from Herlean Younce.

Herlean Younce: Hello. This is my first time doing this. I apologize. I was calling because I
am a homeowner, and I was wondering how do you go get a loan if you want
one after you’re a homeowner, without getting a home equity loan? Bankers
and credit unions, they all say the same thing to me. They look at it, and
they’re going, “Oh, you’re a homeowner.” And the first thing they say is,
“You want a home equity loan?”

Not necessarily. You just want to get a signature loan. [A signature loan is a
loan that is not backed by collateral. It’s also called an unsecured loan.]

Jane Walstedt: A loan for what?
Herlean Younce: Anything. Not so much like buying a car, just I guess what you’d normally get a signature loan for. I want to buy new carpet for my house.

Jane Walstedt: Mm-hm.

Herlean Younce: And I’m thinking of just saving the money to pay cash for it because I don’t want a home equity loan to buy a carpet and pay for several years.

Jane Walstedt: Right. Okay, do…

Herlean Younce: But you go to a bank and say, “I want to get a loan.” The first thing they ask you, “Oh, you’re a homeowner? Here. Let’s get a home equity loan.”

Jane Walstedt: Right, okay.

Herlean Younce: Like they’re sitting around like vultures waiting to get ahold of that equity. “It’s my equity. Leave it alone, and I want to wait for 20 years to build it up.”

Jane Walstedt: Can one of our speakers respond to that question?

Mary Hendrickson: Well, as a mortgage person, the reason that they’re saying that is because that’s the cheapest money. Whenever you borrow money, using anything except your home [as collateral] does not provide a tax advantage for you.

So if you’re going to be borrowing it just straight out like a signature loan, then you’re going to be paying interest on it that most likely you’re not going to be able to use as a tax write-off. Whereas if you get a loan against your house, you’re going to get a lower [interest] rate, and you’re going to be able to have a tax write-off.

Herlean Younce: But as you pay that back, you don’t rebuild the equity in your house, do you?
Mary Hendrickson:  Well…

Herlean Younce:  It’s gone once you borrowed it.

Mary Hendrickson:  Once you’ve borrowed it, it’s gone, but you got use out of it, and you can take that money, and if you have it in some type of investment that’s growing for you, you should retain that money.  It should be money that you’re investing and making it grow for you.

Herlean Younce:  Okay.  It will be better to get a home equity loan to buy it -- to get the carpet done?

Mary Hendrickson:  Definitely.  Because you’re increasing… the improvement of your home, you’re increasing the value of your home.  And if you borrow through a signature loan, you have no tax write-off, so you’re still using your funds.

Herlean Younce:  Just to show…

Mary Hendrickson:  Anyhow.  But not giving yourself a tax write-off.

Herlean Younce:  I just don’t like the idea of using my house to secure a loan.

Pamela Krueger:  You know one thing - this is Pam Krueger from Money Track.

Herlean Younce:  Mm-hm.

Pamela Krueger:  One thing you might want to think about too is remember there’s good debt and there’s bad debt.  Not all debt is bad.

Herlean Younce:  Okay.
Pamela Krueger: So like what Mary was saying is that if you’re making an improvement to your home, that is probably going to increase the value of the home. It’s probably good debt. If you were looking to buy a car or anything that you eat or wear, like clothing or something or a vacation…

Herlean Younce: Yes…

Pamela Krueger: That’s bad debt because it is not going to pay you back anything in the future.

Herlean Younce: It’s true.

Pamela Krueger: So if I were you, I’d be looking at it like, “Hmm, is this a good debt like an education loan even?”

Herlean Younce: I’ve got those.

Pamela Krueger: And then look at the tax benefits of using a home equity loan for that. In other words, you’re in control, not the lender, not the people pushing you to do one thing or another, because that’s what I hear over and over again--people feeling a little pressured. You are in the driver’s seat.

Herlean Younce: That’s how they make it seem when you go to the bank.

Pamela Krueger: Yeah, but you’re the one. You are the driver.

Herlean Younce: There’s no other way you’re going to get the money if you don’t use your house to secure it.
Pamela Krueger: Right. So… but you’re the one who is totally capable of determining if this is a good debt that’s likely to go up in value and that I can pay back and get something out of it in the future, including the tax benefits.

Herlean Younce: Okay.

Pamela Krueger: Or is this just bad debt--that I just want something, and it’s going to go down the toilet anyway.

Herlean Younce: Right.

Pamela Krueger: Don’t touch your home equity for that.

Herlean Younce: Well, I do need to get the carpets redone. I have a year-old son, and we have a 17-year-old dog.

Pamela Krueger: Sounds like good debt to me.

Jane Walstedt: Yeah.

Herlean Younce: And so, I need to get the carpets redone because of the 17-year-old dog, so that my son can have a safe place to play. So either way the carpet’s got to be done.

Pamela Krueger: Right.

Herleen Younce: And I also need to get new windows for the house.

Pamela Krueger: Sounds like good debt to me.
Herlean Younce: Would it be better to get all the windows done at once so that, you know, I get one big loan to get the carpet and the windows done all at one time or go get two separate loans…

Pamela Krueger: No.

Herlean Younce: …like get one paid off with the other one.

Pamela Krueger: Because you don’t want to pay the cost to get two separate loans.

Herlean Younce: So it’ll be better to figure it all out and get one big debt for the...

Pamela Krueger: Right, because you’re only going to pay for it one time.

Herlean Younce: Oh, okay.

Pamela Krueger: Yeah.

Nate Wenner: This is Nate. One more thing to add to that is you can also consider a home equity line of credit, which is not a loan. If you take out say $10,000 or $15,000 in a line of credit, it allows you to just take out the money as you need it.

And again it goes against your equity, but instead of pulling out the full say $10,000, you could take out $2,000 here and take another $1,000 there, take out a couple more $1,000 later on. And that way you’re only paying interest on the amount actually taken out.

And then you can it pay back as you go. So it’s a little bit different, but it’s very similar, if you want to talk to your lender about that.
Herlean Younce: That would be great.

Jane Walstedt: Thank you, everybody. I’m going to let us move to the next question, and we’re running a little behind, and I’m going to keep the call going because we haven’t given people an opportunity to ask a lot of questions yet.

Kimberly, do we have another question?

Coordinator: Our next question comes from Helen Smolinski.

Helen Smolinski: Yeah, thank you. My question is--I think it’s Nate, is it?-- you said 28% of gross income is traditionally okay for housing costs. Was it gross or net [income]?

Nate Wenner: Yeah, gross is what is typically used. I mean gross income. That’s right.

Helen Smolinski: Okay.

Nate Wenner: And there’s a follow-on to that that I didn’t mention, and that is that in addition to that, another often-used metric to look at is that more than 36% of your gross income should not be used for any debt payment.

So not only your principal, interest and home owner’s insurance and property taxes, but also if you’re making payments on car loans, if you have other loans that you’re making payments on, those in total should not be greater than 36% of your gross income.

Now those are kind of long-term historic percentages, and all the lenders are using, you know, different rates and things that they’re going to be looking at, but, you know, those are kind of some good guidelines I think that people should be using. Yeah.
Helen Smolinski: Okay, I’m calling from San Francisco. So that 28% is okay or is that adjusted geographically or…?

Nate Wenner: Well again, that’s simply a rule of thumb, I would say.

Helen Smolinski: Okay.

Nate Wenner: But in that market, obviously, that’s going to be harder to do.

Helen Smolinski: But that’s okay?

Nate Wenner: Yeah, it’s okay.

Helen Smolinski: Yeah.

Nate Wenner: As long as you’re… again, you know, it’s really about assessing sort of the rest of your, you know, expected costs. And where those figures come from, just briefly, is that, you know, if people are going to have other costs, they’re going to have taxes to pay, they’re going to buy food and clothing and the utilities and all of those things and stuff.

What happens… what tends to happen is if your, you know, debt costs are more than that kind of percentage [36%], then it starts to really get tight for most people. And it could become, you know, a dangerous situation.

Helen Smolinski: Right.

Pamela Krueger: Then, Nate, can I just add something here real quick? It’s Pam from Money Track. Helen, I live in the Bay Area.
Helen Smolinski: Oh.

Pamela Krueger: Okay. So I was trying to make the point earlier that every local area is its own world when it comes to real estate.

Helen Smolinski: Mm-hm.

Pamela Krueger: Nate, you might agree with me on this. Mary. I’m thinking that this is a really good example of someone who… Helen might do best to go to a local financial planner. Look at your whole picture so that you’re not making a decision out of context.

Nate Wenner: Right.

Pamela Krueger: You might want to increase that [percentage]. I would. I’m just being really honest with you.

Helen Smolinski: Mm-hm.

Pamela Krueger: I would be willing to borrow more in the Bay Area because of the history of the local market and my timeframe of wanting to be here forever. That does make a difference for me, and it might make a difference for you.

So, even though the 28% is the nationwide sort of rule of thumb, I would say go to someone locally and take a look at your whole entire [financial] picture. And I’m just being really honest with you. I would not be telling you the truth if I didn’t tell you that I’d be willing to go higher than that and take a little more risk in the Bay Area.

Jane Walstedt: Mary, what is your 45% to 50%, up to 60% that you mentioned?
Mary Hendrickson: For the first time homebuyers, they’ll [the lenders] let them [borrowers] go that high. What is normal now, just on a regular loan, is anywhere from a 45% to 50% back-end ratio. That’s with their debts and their housing expenses. [Back-end ratio refers to the portion of a person’s monthly income that goes toward paying debts, such as mortgage payments, credit card payments, student loans, car loans, home equity loans, child support payments, etc. It’s also known as debt-to-income ratio. The definition can be found on the Web sites of such organizations as Bankrate.com, Investopedia, and MortgageLoan. According to Investopedia, lenders generally like to see a back-end ratio that does not exceed 36%; however, there are lenders who make exceptions for ratios of up to 50% if you have good credit.]

The 28%, 36% is what we did. I’ve been in the market for 28 years. And so that’s probably the ratios we used up until about five years ago. They really don’t even look at the first ratio [28%] anymore. They’re looking--the lenders--and I’m talking about the underwriters--and they are looking at the back-end ratio.

Jane Walstedt: Is it kind of depending on your comfort level?

Mary Hendrickson: It most definitely is.

Nate Wenner: Yeah.

Mary Hendrickson: It’s dependent on your comfort level and where you know you can spend the money.

Jane Walstedt: Mm-hm.

Nate Wenner: Right. And that’s where again, it’s up to each of us individually to decide what you are comfortable doing, not just looking at how much the lenders are
allowing you to spend on your debts. Because that’s where we’ve seen people sometimes getting into trouble.

And most people are just fine. And that’s great if you think you can spend up to half of your money [on housing]. That’s just great. But a lot of people, you know, feel that’s a little bit funny, a little bit too thin perhaps.

Jane Walstedt: Right. Okay. Kimberly, do we have another question?

Coordinator: Our next question comes from Grace Protos.

Jane Walstedt: Go ahead, Grace.

Grace Protos: Hi. First, I want to say thank you to the speakers for such wonderful, wonderful information. My question is, is there a way to determine whether or not there’s any more value in an area or value in a property?

For example, I happen to live in an area that has changed dramatically in the last ten years. Is there a way for me to assess whether or not there’s any more value in buying in this area?

Jane Walstedt: Do any of the speakers have a response to that question?

Mary Hendrickson: Okay, so you’re in…

Jane Walstedt: She’s in New York.

Mary Hendrickson: Okay. In New York. Thank you. So New York is a good area. I’ve got quite… I’m from the Seattle area. And quite few of my clients are buying in the New York area right now. They’re making very good money on the properties they’re buying there.
So your question is should you hang on to the property you’ve got?

Grace Protos: Well, no. My question is whether or not there is… is the area saturated already, is it over-inflated in terms of cost, you know? The prices seem to have skyrocketed. And I’m just wondering whether or not there’s any more value. If, you know, we had, you know, purchased a house ten years ago, I know the value would have increased significantly.

Pamela Krueger: Right.

Grace Protos: I’m just wondering at this point whether or not there’s a way to determine if the property is going to continue to increase.

Pamela Krueger: Hah, I wish.

Mary Hendrickson: You ask me to … If there were a crystal ball, that would be absolutely wonderful.

Pamela Krueger: That’s why the timeframe is so important.

Mary Hendrickson: Exactly.

Jane Walstedt: Mm-hm. I mean, there’s another way to ask it. Is it a good time to buy in that area?

Pamela Krueger: Depends on how long you’re going to live in that area.

Grace Protos: Uh-huh.
Mary Hendrickson: Totally. Yes. If you’re going to stay there in that area, I’d buy. Because it’s going to… even if it’s peaked right now and plateaued, it will come back.

Grace Protos: Mm-hm.

Mary Hendrickson: So if you’re going to be in the area, definitely. If you’re only doing it for a short-term gain, I don’t know that I would do that anywhere.

Grace Protos: Mm-hm.

Pamela Krueger: How long are you thinking [of staying in the area]?

Grace Protos: Quite a while. We actually own a co-op, and we’ve done very well. But at this point it would be selling high to buy high.

Jane Walstedt: Mm-hm.

Grace Protos: And so I guess, I’m just trying to gauge whether or not there’s, you know, any more investment. We’ll probably be here for many more years. My girls go to school here, so…

Pamela Krueger: Do you think that the property that you’d be moving into is going to be a more …a property that for its physical characteristics might be likely to appreciate and keep its value?

Grace Protos: Yes, absolutely.

Pamela Krueger: If my timeframe were looking long term and I were planning on staying put, I wouldn’t even hesitate.

Grace Protos: Okay.
Pamela Krueger: Yeah.

Grace Protos: Thank you.

Pamela Krueger: Barring any other unforeseen weird things we don’t know about.

Grace Protos: Right.

Jane Walstedt: Let me ask Kimberly, whether we have another question in the queue. I’ll take one or two more questions. And then we will have… unfortunately, we have to close the call. Kimberly...

Coordinator: Our next question comes from Keisha Pack.

Jane Walstedt: Hello, Keisha.

Keisha Pack: Hi, yes. I had a question about refinancing at this point in time. The refinancing would be to pull out cash for real estate investing. I’m in the process of getting my credit score up higher. And I already own a co-op that is doing really well.

But I want to pull out cash now because I don’t need to do anything necessarily to the condo to increase the value. It was already brand new when purchased. So I would be pulling out cash to maximize all my other investments.

Jane Walstedt: Does anybody want to answer that question?
Pamela Krueger: So the other investment - this is Pam - that you would be considering making
in order to pull out money from this appreciation you’ve already enjoyed
would be to invest in another property?

Keisha Pack: Yes, it would be to invest in maybe a rental property.

Pamela Krueger: Yikes, yikes, yikes. A whole can of worms. That sounds so good on paper.

Keisha Pack: Mm-hm.

Pamela Krueger: And needs to be totally analyzed in the most unemotional way again. You
know, just kind of not getting excited about the upside – the Rich Dad, Poor Dad books – all of that exciting stuff about being a landlord. Oh, my God! I
mean, it’s 50-50.

You really have to be brutally, brutally conservative when you make that
determination, especially if you’re going to play with, gamble to a certain
extent with the money that you’ve already built up in the place where you
have the roof over your head.

Keisha Pack: Mm-hm.

Mary Hendrickson: Note that if you buy a rental--and I do own many rental properties myself-
but know if you buy a rental property, add 25% minimum to that a year. On
the income that you’re receiving in, 25% of that is going to go towards
property maintenance and/or damage that’s [been] done on the property.

And know that it is a job. When you do rental properties, you’ve got to look
at it as a job. It’s not just earning income or potential profit in the future for
you. It is a job, and you have to take care of that job every day. And you
have to take those phone calls and assist them [your renters] every day.
So you…if you can do that and look at it that way, and knowing that you’re…that there’s no free money out there. And if you do rentals, that you…that it is…there is a price to pay emotionally and physically when you do rentals.

Jane Walstedt: Is there somebody that was…that people who are interested in doing that can go to--a course or website that helps them makes the decision?

Mary Hendrickson: Where are you located?

Keisha Pack: Maryland.

Mary Hendrickson: Okay. I don’t know of any place in Maryland. I teach classes here in Washington [state].

Pamela Krueger: Be very, very careful—this is Pam breaking in here-- I took a story from Money Track on a kid who spent $30,000 on courses, not at universities, not, Keisha, going to someplace like a really bona fide teacher but to these seminars.

Mary Hendrickson: Right. Exactly.

Pamela Krueger: Be very, very careful, because those are nothing but sales pitches. If you can find a university in your area that offers a real true course on real estate investing, take your time, don’t hurry, take your time really going from strength and not on this hope or, you know, driven by excitement.

Mary Hendrickson: If you really want to learn it, become a property manager for two years for somebody. Manage people’s properties and really know what you’re going to deal with before you invest your own money in it.
Jane Walstedt: That’s a good suggestion.

Pamela Krueger: Yeah.

Jane Walstedt: I actually have a girlfriend who manages some rental properties for friends in the building she lives in, so…

Pamela Krueger: Excellent.

Jane Walstedt: In a situation like that I think you get a real feel for it. I’m going to take one more question if there’s another question in the queue, and then I’m going to turn it over to Sarah for our closing remarks, because we’re about to go over almost 15 minutes on the call.

So Kimberly, do we have another question?

Coordinator: Our question comes from Lauretta.

Jane Walstedt: Okay, Lauretta, go ahead.

Lauretta: The question is that I understand that there’s 15-year loans and 30-year loans, and I’m starting to hear now about 40-year mortgage loans. What are the pros and cons of a 40-year loan?

Jane Walstedt: Mary, are you the right one to answer that one?

Mary Hendrickson: Yeah, lower payment. There’s 40-year, and now there’s 50-year also. For lower payment. People that want to buy the home and they want to pay principal and interest, they don’t want a funny program, but they know that they’re not going to be able to afford the 30-year or the 15-year payment comfortably.
So they go on the 40-year loan, and like I said coming in, there’s a few places now they actually have the 50-year loan too. [The] reality is that most people don’t even keep their home for 30 years. If they have a 30-year mortgage, it’s just buying them lower payments because they’re extending out the loan.

You’re going to pay a little bit higher interest rate [on the longer-term loan]. The shorter term loan…whether you go 15 years, 30 years or 40 years, the shorter the loan the lower the interest rate and the higher the [monthly] payment.

Lauretta: So on a 15-year loan the interest [rate] would be lower?

Mary Hendrickson: The interest [rate] would be lower, [but] your [monthly] payment would be higher.

Lauretta: Oh, okay.

Mary Hendrickson: Okay. So you have lower interest rates with the shorter term loan. It’s when you get up to 40 and 50 years that your interest rate is going to go higher.

Lauretta: Okay.

Mary Hendrickson: But your payments are actually lower that way [with the longer term loan] because you’re stretching out [the payments for] another ten years.