Cynthia Dawkins: And now Pam Felton will introduce our third speaker.

Pam Felton: Thank you, Cynthia. It is my pleasure today to introduce Mary Hendrickson. Mary is a Cash Flow Specialist at First Horizon Home Loans in Kirkland, Washington. She has 27 years of intensive study and practice in the real estate field and teaches a wide variety of financial education classes.

Ms. Hendrickson has been recognized in Who’s Who Worldwide Registry of Global Business Leaders. She received a Masters Award from the Duncan Group for Outstanding Mortgage Loan Officer. Mary can be heard on “Positive Talk Radio” and seen on “Prime Time.”

Welcome, Mary.

Mary Hendrickson: Hi. Thank you for having me. It is a pleasure being able to talk to you guys and following up the last two [speakers], who were absolutely wonderful.

And I have a different perspective on a lot of the things that they’ve shared, so I’m going to share that with you. And part of my talk is going to be on qualifying for a mortgage.

But the other part is also going to be on the fear that’s out there of buying a home. If you have not owned a home in the past--and a lot of you have not--some of you are meant to be renters.
And there is a certain part of the population that will always be renters. That is their comfort zone. That’s exactly where they are and where they’ll stay and where they should be.

But a lot of people think that their only choice is to rent. They think they have no other choice, which is not true. They just don’t know the choices that they do have. They haven’t talked to the people who can assist them.

If you’re looking for your dream home for now or your dream home of the future--that’s probably not going to be the first home you buy. Most people buy a home and they either refinance or sell the home within two to five years.

It was talked about depth of home ownership--that’s keeping the property five years or longer. I completely agree with that. Whenever you own a home, you’ve got to allow the depth to build there. You’ve got to allow it to create its own wealth and its own stability.

When you own a home, what you’re looking at is that even if you’re putting money into it each month, you’re looking at it as your bank account.

So, let’s say your rent was $1,000, and now, without any tax advantages or anything your payment is going to be $1,500, $500 more than you were paying before. The question arose “What are you doing with that $500? Are you saving it and making it grow for you?”

If not [if you’re not a renter], if you actually own a home, it’s forcing you into saving. And that’s where we in the United States need to put ourselves. Most of us spend every single cent we make.

If you’re forced to save it and put it into your home ownership, then your wealth can grow. So if you look at it like that, you’re actually putting your
money into a bank account for your future. It might not be your dream home, but it probably is not going to be your one and only home. It’s probably not going to be the last home that you ever own.

Now as far as getting into properties, if you have no money [to put] down and you still want to purchase a home and you’ve got a job where you can make the payments and you can prove that you can, that’s the number one factor--to make sure that you can demonstrate your ability to pay the loan back.

Once you demonstrate it [that you can make the payments] to the bank, your second most crucial thing is your credit. And I cannot emphasize how important your credit score is. Checking your credit score every six months is a must. The way our credit is going, anything can get reported on your credit [report] and you won’t know it, which can destroy your [credit] score.

And there is no grace. There is no, “Oh, this was a mistake.” It takes you jumping through sometimes a year or longer of hoops to be able to get your credit score corrected. They’ll be checking your credit score all the time.

There is a program out there for first time buyers [The First Time Buyer Program]. This is if you haven’t owned a home in the last three years, and there’re also programs if you have owned a home in the last three years. But first time homebuyers are considered anyone who has not owned a home in the last three years. One hundred percent financing and the seller pays your closing costs, so you actually get into it [a house] for $500.

[The Home Loan Learning Center on the Mortgage Bankers Association Web site contains a brochure entitled *Your First Steps toward Homeownership*, which includes sections on knowing your finances, choosing a lender before you shop for a home, which mortgage is right for you, common mortgage choices, other mortgage options, what’s wrapped into your monthly mortgage
payment, comparing mortgages, understanding discount points, and what interest will you pay. It can be found at http://www.homeloanlearningcenter.com/default.htm.

Now depending on your credit score and the length of [time in your] job, and your ability to pay back [the loan], your [interest] rate [on your loan] can be as low as five and seven eights, and it’s going to average between that and six and three eighths for the first time home buyer.

Now you can go and talk to a lot of mortgage people, and they’re not going to be able to tell you about this program because it’s only banks that have the program, and there’s only a few banks that do. So you can go to your State and find out which banks it is that specialize in this program.


Also FHA [Federal Housing Administration] has really come to the plate now on upping the types of loans [they offer].

I've done FHA for many years in the past. Recently we hadn’t been doing them because the other products were so much better, but FHA has just now come back with the program called 203(k). [The Section 203(k) program is the Department's primary program for the rehabilitation and repair of single family properties. For more information, visit http://www.hud.gov/offices/hsg/sfh/203k/203kabou.cfm.] And let’s say you find a home that you want to buy, but the furnace system is shot, it needs a new roof, and it needs a new window package.
And I just had a client that this happened to. He was a school teacher. He cannot afford to put these things in after he purchases it. So what is he to do? He can’t buy the home that he can actually afford to buy.

Well, FHA will come in and they will actually add all this on to the package, so that you do get a new roof, new windows, new floor coverings to make the home livable for you. You’re not making payments or anything on this while the work is being done. And the work is being done after the house closes, so the seller isn’t disturbed in getting on with their life.

So there’s many different combinations of ways that you can do a loan, making it work and still be able to have home ownership. When you look at renting, you’re looking at this year alone what you are paying in rent.

Normal areas--and this is not all of them--but [in] normal areas your rents go up. As interest rates increase, your rents increase. I’m not going to say this is in all areas because it isn’t in the market that we’re in [Seattle, Washington].

And there is all this scare about all the foreclosures right now, and there have been over 30 banks that have closed in my area alone, since the beginning of the year. The banks haven’t closed because of the foreclosures, and that’s where the deception is. Most people think that all these people were getting foreclosed on, so the banks went under.

What happened was that they were doing loans that weren’t healthy loans for people. And they took them [the loans] to Wall Street, and they actually had a 70% ratio [ratio of home ownership expenses to total gross income], which leaves people no money to live on. [Mortgage lenders resold home loans at a profit to Wall Street banks. See “Subprime Aftermath: Losing the Family Home,” Wall Street Journal, 5/30/07.]
Wall Street said, “No, we’re not buying these loans.” In fact, we’re going to charge you $2 million for doing these loans. They closed their doors down. So there are other circumstances that are causing the scare that’s going on right now.

Will your house always increase in value? I don’t know. Some years it will and some years it won’t. Some years you’ll be able to sell your home in a heartbeat and other years it’s [the value of your home] going to plateau or even go down. And you’re going to need to hang on to it.

Now you might have chosen that year to sell and move on. The worst case is that you’ll wait. You’ll wait another year, two years, or three years to sell that home and move on to another one.

If you don’t move too fast and get scared and jump out, then eventually you will come out ahead because it [the value] will come back. It has. The areas that have gone down have eventually come back. It was mentioned that in California there was a point where you couldn’t give away a place. And they couldn’t sell them [homes] for what they owed on them.

And now, it’s back growing again. So you’ll always have the ebb and the flow in the markets on that. Ratios have really changed, ratios, meaning the amount of debt and the house payment versus your [gross] income. What can that percentage be?

And so what you’re looking at -- on the first time home owner’s program -- what they’re [the lenders] looking at is [a] 50% [ratio] as a norm, 45% to 50%. But they will go up to 60% if it makes sense. And they’re going to be looking at the tax returns, the tax refunds. They’re going to be looking at your whole picture when they assist you in making that decision [whether to lend to you].
They also have classes that you can take on this. In some of the programs it’s mandatory to take the classes. Make sure that you truly, truly understand home ownership.

Now when you get into a property and you’re looking at being a homeowner, the one thing you forget is the window coverings and the furniture and the stuff that you have put into it.

But what about if you get in [to the home] and it has a stove or refrigerator, a washer and a dryer, but those things break? And you’re going to be a repair item now that you can’t call a landlord for [fixing them].

There’s an insurance that you can get--and I highly recommend to all my clients to get this insurance [at a] minimum for their first year [that they own their home]-- for $40 a month, and that needs to be added into the cost of your loan so that you know that you’ve got it [the insurance] every month, okay?

Forty dollars every month it costs you to have this insurance, and this insurance will cover anything that the… your homeowner’s insurance does not cover. So let’s say your washing machine goes out. They will go out, and--there’s a $50 charge--they will send a repair person out to fix it.

They either fix it or it’s replaced. And you don’t pay any more than that $50. But you do pay $40 a month, whether you use the insurance or not. It is a great protection for a first-time homebuyer--not to get caught with all of a sudden an escalating bill that is gone out of control but the repair has to be done.

When I first started out doing this and I wanted… I was terrified to own my own home. I was a single person. So I actually continued to rent, and I
bought my first home, and I didn’t live in that home for two years. I rented it out.

I was too afraid of being responsible to own it and live in it myself because I could own it and have somebody else live in it and they would take care of the yard and stuff.

So I worked my way into becoming a homeowner, not getting my dream home, but getting a start—the start of my financial future—and having a way of looking back, where I know that I’ve got something that I cannot only live in, but it’s actually paying me in a long-term way, is actually paying me to work on it or to live in it.

Now if you have work to do on the property, and you have other friends or family members who are actually buying properties too, make it a [joint] venture. Work on each other’s properties together. Do pot luck. Make it a fun thing and exchange.

If you’re going to have yards that you’re going to upgrade or put in or finish off a basement, as much of the work as you can do yourself, you’re going to save that much money. But you need to make sure it’s good work that’s being done, that you’re not making a patchwork out of it.

And what are you going to do with it when it’s done? What use do you have for it? Well, allow family members and friends [to give input], talk it over with them, let them help you make the decision and also join in the fun of doing it.

So if you use what you’re going to be saving with home ownership to your benefit, use it as a bank account, knowing that your house, your home, is in your heart, and your house can be your bank account. Because your home
will be wherever you live, whether it’s in a rental property or in your own home.

You can paint and fix up a home just like you want it and to feel comfortable in it. Even though it doesn’t start out to be your dream home, it might end up being your dream home.

And a lot of properties were purchased using emotions. And remember, emotion is energy in motion. When you purchase, use wisdom rather than the energy and the emotion of letting that motivate you. Use the wisdom. Is this a good area to buy in? Maybe it’s not my perfect home, but is it a good area, an area that I will enjoy having my family in and I can live in this home and be happy, even if you’re only going to stay put, be there for five years, you know, so that you know that there’s a time to be able to move into a home that you like better.

So with that said, do I turn it back over to the narrator?

Jane Walstedt:   Yes, you do, thank you.

Mary Hendrickson:   Okay.