

**Workshop guide on Mortgage and Finance for Union Bethel AME  
Hud Housing Seminar in Camp Springs, Md. 20748  
9/16/2006 from 10am-12 noon presented by Donald T. Anderson II**

**I. Loan Products and Programs**

**Adjustable Rate Mortgage or ARM**

These loans have an interest rate that increases or decreases over the life of the loan based upon market conditions. The starting rate will generally be lower than the rate offered on a standard fixed rate mortgage. Changes in the interest rate are usually governed by a financial index. Types of indexes include Cosi, Cofi, Libor, and MTA.

**Balloon Mortgage**

These loans have a series of equal monthly payments and a large final payment. Although usually fixed, the payments may be for interest only. The unpaid balance, frequently the principal comes due in a short period of time usually 3 to 5 years.

**Fixed Rate Mortgage**

Fixed rate mortgages have an interest rate and monthly payment that remain constant over the life of the loan. This sets a maximum on the total amount of principal and interest you pay during the loan.

**Construction Loans**

These loans are usually short term during the initial construction of residential, commercial, or industrial property. They are usually paid off from the proceeds of permanent financing from the lender or broker.

**Reverse Mortgage**

This loan makes payments to the borrower using the equity in the home as security. Must be 62 to qualify for this product.

**No Ratio Loan**

This loan is approved based on credit and assets only. The borrower does not have to disclose any income documentation for this product. Normal credit score of a minimum 660 to qualify.

## **NINANE or No Income No assets No Employment.**

Very strategic loan for the investor. No assets needed to qualify. No Income. No employment... Ideal for strong credit score borrowers looking to invest in real estate that have hard time documenting income. Also ideal for self-employed.

## **Stated Income Stated Assets or SISA**

Ideal for self employed or commissioned borrowers in various industries including Real Estate, Medical, Construction, and Attorneys. This loan qualifies by stating assets on the application. Only verbal verification of employment is done. No verification of income required.

## **II. Cash Flow analysis and Property evaluations**

In this module we will explore ratios on qualifying and potential return on investments with various loan programs.

**Scenario:** Purchased real estate dwelling for 200,000 in 2004 at estimated interest rate and payment of 1200 dollars monthly getting ROI or return on investment monthly average of 250.00. Ideally to get this you would have to have a 10 or 20 percent down payment or get an ARM loan for a short period of time usually 6months to 3 years.

With a 20,000 dollar down payment and 3000 dollars ROI annually you would have a return on investment after 3 years of 9000 dollars plus interest and equity. With normal seasoning and returns of 10-15% annually you can estimate a total return of approximately 69k over 3 years or as much as 99k. On 1 dwelling that is a return of almost 5 times your initial investment of 20,000 dollars!!!!

Comparative values of properties in zip codes: Source (Washingtonian Date of April 2006)

Fairfax City 22030 \$484,663 in 2004 to 19% change in 2005 \$575,304

Columbia Heights/Mount Pleasant DC 20010 \$420,338 to 25% change in 2005 \$523,647

Spencerville, Md. 20868 \$520,500 to 75% change to \$910,143 in 2005

Localized examples have ranged from 15-50 percent in past 3 years with zip codes including. Dunkirk, Md. Indian Head, Md. Fort Washington, Md. Bowie, Md. Waldorf, Md. Laplata, Md to name a few...

**The main point on this analysis is to buy at or below market value, and to maintain over a length of time, then try to calculate forecast of resales and sell higher than what you invested at either 25-50 percent return or better!!!!**

Example of monthly payments under fixed and adjustable scenario:

200,000 at 6.5 percent interest rate (approximate P&I 1264.14 for 30yr, 1170.91 for 40yr)  
200,000 at interest only payment of \$1,083.33 for 6.5 and 1250.00 for 7.5 percent.

200,000 at 7.5 percent interest rate (approximate P&I 1398.43 for 30 yr, 1316.13 for 40 yr.

200,000 at 2.75 percent interest rate on Arm product for 30 yr (687.46 monthly) not fully amortized!!!!

Approximately 600-dollar difference in monthly payment and fully amortized payment.  
Potential negative amortization.

### **III. Glossary of Terms Overview and Q/A period**