Breakthrough to Mastery
Agent Guide Series
Instructor Guide

> A practical manual to leading clinics on the Agent Guide series in the Market Center <

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Welcome

Welcome to your role in helping agents get the most from the Breakthrough to Mastery Agent Guide series. Whether you consider yourself instructor, trainer, discussion leader, coach, or facilitator, the purpose of the educational sessions you conduct is to inspire change in agents' habits of so they achieve a profitable impact to their business.

Your role is more than the time in the class. It's the preparation time; it's the individual attention you give to the different needs of the agents; it's the follow up and accountability. All of these processes help facilitate successful change.

You've accepted an important challenge and you are to be applauded for your efforts. At anytime teaching these guides, contact Keller Williams University with suggestions for improvements, with questions you may have, or for assistance you may need.

Welcome, and best wishes!

The Concept

The Breakthrough to Mastery series of agent guides addresses topics identified by Gary Keller as being essential for success in a buyers' market where there are fewer transactions than agents had in the recent past. New market conditions require new strategies for many aspects of the real estate business:

- Working with buyers and sellers
- Generating leads
- Managing your business
- Finding good financing solutions

These short and timely guides contain advice and lessons learned from agents who are not only surviving, but growing their businesses in some of the toughest markets in the country. Think of these guides as a "90 Minute Read" that can be followed with additional training.

Titles

- Gaining Mind over Market
- Upshifting Your Lead Generation
- Seller Pricing Strategies
- Seller Staging Strategies
- Lead Capture and Conversion
- Internet Lead Capture and Conversion
- Creating Urgency to Buy
- Bulletproofing Transactions
- Expense Management
- Effective People Leverage
- Short Sales, Foreclosures, and REOs
- Financing Solutions

Contents

Contents of the agent guides are derived from current and reliable sources:

1. Interviews with top-producing agents
2. Keller Williams events such as Mega Camp and Masterminds
3. Current information on Agent Mountain
4. Research meetings with Keller Williams executives
5. Industry research

The agent guides contain many valuable resources:

1. Strategies for dealing with challenges
2. How-to advice
3. Scripts
4. Graphs

This Manual

This manual contains two major sections that provide guidance for learning from the Breakthrough to Mastery series of agent guides.

1. The first part contains general information pertinent to all topics in the series.
2. The second part contains information for facilitating training on each guide.

How to Use the Agent Guides

The agent guides can be a self-contained, complete instructional unit when read independently. In addition, reading the guides can be the first step in a training process.

1. Easy Read

The agent guides are short instructional books, packed with guidance on dealing with current challenges. The advantage of this mode of instruction is that it can be done immediately—anytime, anywhere. Reading the guides on an individual basis allows for the fastest possible dissemination of time-sensitive information.

Printed agent guides are available for immediate purchase in the Keller Williams University (KWU) online store.

1. Go to http://kellerwilliamsuniversity.com.
2. Click on "Online Store" in the navigation area in the upper left corner of the screen.
3. Type "Agent Guide" in the name box of the "Search for Products and Materials" area.

To encourage agents to get training on important subjects, Team Leaders have the option of purchasing multiples of the agent guides and selling them in the Market Center, thereby making it easier for agents to obtain training.

Team Leaders can use newsletters, sales meetings, and email to let agents know about these training guides and encourage agents to purchase them.

2. Group Discussion or Facilitated Training

Market Center faculty or Team Leaders can conduct training sessions of approximately an hour and a half on their areas of expertise. The purpose is to focus on the needs of the agents.

Grouping Topics

Agent guide topics can be grouped and discussed in single training sessions when subjects overlap and supporting concepts are covered in other agent guides. However, group facilitators should make sure content can be covered in depth before deciding to cover more than one agent guide in a single session.

Suggested Groupings

Gaining Mind over Market	with	Upshifting Your Lead Generation
Lead Capture and Conversion	with	Internet Lead Capture and Conversion
Seller Pricing Strategies	with	Seller Staging Strategies
Expense Management	with	Effective People Leverage

The remaining four agent guides contain less overlap with other guides.

Group Size

Meaningful learning takes place in small groups where all attendees have an opportunity to participate. Groups should be limited to approximately fifteen people. Create additional training sessions when more agents are interested in a topic.

Preparation for Participants

The most effective learning occurs when participants think about a topic before they come together for training. Everyone participating in a training session needs to read the pertinent agent guide in advance of the session. Agents should take notes and write questions in their manuals, and use those comments as prompts to discuss their issues during training.

Preparation for Discussion Leader

1. Read the implementation guidelines in this manual for any session you are thinking of leading.
2. Read the agent guide and take notes on what you want to focus on in your training session. There are a variety of ways agents can gain knowledge about a subject. For example, you may want to lead a session that focuses on role-playing scripts. Alternatively, you may want to discuss the topics in the "Stop and Think" features throughout the guide. A variety of options are given for each agent guide.
3. Solicit support from appropriate content experts. Examples of who to contact are in the guidelines for each topic.
4. Gather materials and resources. Some guidelines have suggested resources that will enhance learning. Make sure either a flip chart or whiteboard and markers are available in the meeting room.
5. Announce the session. Use Market Center newsletters, paper fliers, or email to let agents know about the training opportunity.
6. Use any registration system that makes it easy for agents to sign up. You'll want their contact information in case you need to get in touch with them prior to the event, especially if you have more registrants than your space can accommodate.
7. Set expectations and communicate these to the training participants. Let them know what they need to do in advance and what to expect when you get together. Let them know they must arrive prepared, which means they must
    a. read the agent guide; and
    b. write notes about their issues, questions, or concerns. Make sure they know what they'll get out of the session (e.g., they will practice scripts or discuss their questions about the topic).
8. Reserve training space and set up the room. On the day of training, put a title sign outside the room to let agents know where to find you. Before the session begins, set up the room so participants can see one another when they are seated. Tables or chairs in a circular or rectangular formation let attendees face each other and have an environment that is conducive to discussion.

Starting a Session

1. Introduce yourself and explain how you are going to lead the training event.
2. Ask what agents want to get out of the session. Make sure everyone states what they want to learn. Have a volunteer record what agents want to learn on a flip chart or whiteboard.
3. Ask for participation from everyone. If a few people dominate, let them know you appreciate their contributions and let them know it is time for others to participate too.
4. Address the items on your flip chart—discuss the topic, practice the scripts, handle the objections, etc. Check off what you cover on the flip chart or whiteboard as you cover each item.
5. Identify follow-up action for any issues that are not covered or resolved. Follow-up actions may include another training session for part of your group, a list of recommended resources, or names of people to contact.

Use KWConnect

Review the supplemental videos on KWConnect on the Keller Williams University website that support the agent guides. Gary Keller and Dave Jenks give a brief introduction to each of the twelve topics.

Watch KWConnect for updates and additions to this series.

Structure and Content of the Agent Guides

The agent guides have some consistent structure and contain common elements.

Sage Advice

Quotes from industry leaders draw attention to important concepts or summarize noteworthy advice. Group facilitators may want to use them as triggers for discussions.

Stop and Think

"Stop and Think" is a discussion-based activity interspersed throughout the guides. This feature provides an opportunity to get agents talking, sharing information, and actively participating in their learning.

Scripts

Many of the agent guides have scripts. Some are "best scripts" from KWU courses. Others are new, developed specifically for the current market. Scripts are first presented in context and then compiled together at the end of the guide. Scripts can be used as the basis for role-play activity.

Tips and Bright Ideas

Noteworthy thoughts are highlighted with a light bulb. These are ideas you may want to elaborate on in a discussion.

Additional Resources

Training facilitators may want to check additional resources for material to use in their training events.

My Action Plan

At the end of each guide, agents have an opportunity to evaluate their skills and identify steps they can take to improve their businesses. This activity is more meaningful if agents select an accountability peer partner and follow up with one another on a weekly basis to assess progress and brainstorm on solutions to challenges. Depending on what you cover in training, you may want to have agents schedule an accountability appointment with a peer partner.

The remainder of this manual contains specific guidelines for facilitating training on each of the agent guide topics.

Implementation of the Agent Guides

1. Gaining Mind over Market
2. Upshifting Your Lead Generation
3. Seller Pricing Strategies
4. Seller Staging Strategies
5. Lead Capture and Conversion
6. Internet Lead Capture and Conversion
7. Creating Urgency to Buy
8. Bulletproofing Transactions
9. Expense Management
10. Effective People Leverage
11. Short Sales, Foreclosures, and REOs
12. Financing Solutions

1. Gaining Mind over Market

Presents a realistic view of the real estate market and the opportunities for gaining market share in a shifting market.

- Get real and get right about your local market.
- Know the facts—not just what the media tells you.
- Return to the skills needed to stay in the game.

Choose Your Training Focus

Options

1. **The Media and What Buyers and Sellers Are Thinking**

a. Review pages 12 and 13 in the guide and ask agents to identify the beliefs their buyers and sellers have.

b. As a group, design solutions and scripts, using current and local market conditions, to address each buyer and seller belief/fear.

c. Have participants select a partner to role-play the buyer and seller beliefs and the agent's response.

2. **Review Agent Guide**

a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

2. Upshifting Your Lead Generation

When the market slows and there are fewer leads, you have to be the one who gets to them first. Focus your lead generation efforts and match your message to the market.

- Get back to the basics of lead generation.
- Understand how to change the message, not the medium.
- Learn how to offer what buyers and sellers respond to.
- Discover how to retrain yourself and your team.

Choose Your Training Focus

Options

1. **Know Your Market**
Assist agents in becoming local economic experts. Pick a few topics from the following list and have agents gather information before class and present their findings in class.

a. Local market numbers

b. New developments in the community

c. Homes on the market—preview them

d. Selling and persuading techniques

e. Financing options

f. Building/construction

g. Home inspections

h. Home appraising

i. Local and national media

j. Industry-specific news and information
   - NAR
   - Inman News
   - REAL Trends
   - www.realestatetomato.com

k. Real estate investing

l. Technology—computer, phone, Internet, blogs

2. **Develop a Lead Generation Habit**
Have the group list their lead generation sources and goals by week or day on a large flip chart. Hand this chart in the office for all to see and ask the agents to post their daily and weekly results for four weeks. Follow-up with a discussion with the group on what worked, what got in their way, and what their new goals will be.

3. **Practice Scripts for Lead Generation**
In a shifting market, the fastest path to business is through prospecting. Have agents role-play scripts for the different types of prospecting—both with Direct Response and Indirect Response. If your Market Center has a "script expert", invite them to share their best scripts with the class. Have agents create, or add to, their own script journal.

4. **Time on the Task**
Host a group prospecting session. Incent agents with awards for most leads generated in a given amount of time.

5. **Review Agent Guide**

    a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

    b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

    c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

3. Seller Pricing Strategies

There may be no issue more important in getting a listing sold than its price. The new strategies and presentation skills presented in this guide will help your agents convince their sellers they need to price their homes to sell.

- Study the local market.
- Present data in a compelling way.
- Handle your listings in a buyers' market.

Choose Your Training Focus

Options

1. **Be the Local Economist**
Together with your agents in class, analyze the local market trends and compare and contrast them to your region, state, and country. Direct your agents to the best local resources and help them discover where the differences lie between what the media is saying and your local reality.

Prepare: Clip articles from the newspaper and download the latest statistics from your local MLS. Gather data from your local board or trusted title company.

2. **Present Compelling Data**
Using Excel or your preferred software, teach agents to "translate" raw data from the MLS into informative and visually compelling graphs they can use when discussing pricing with their sellers. Practice/role-play how to present this information to sellers. Use current data from your local MLS and your agents will walk out of this training session with graphs they can put into immediate use!

Prepare: Download the latest statistics from the MLS and practice making graphs before class.

3. **Review Agent Guide**

a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

4. Seller Staging Strategies

Staging, along with proper pricing, has become the ticket to getting listings sold. Agents need to be conversant in why, how, and who should stage.

- Convincing your sellers to stage.
- Arranging for the staging consultation.
- Handling the staging in every area of the house.

Choose Your Training Focus

Options

1. **Picture This**
   Use pictures to present homes that need staging. Break participants into small groups and have them develop staging plans to get those listings sold.

   Prepare: Find pictures of unstaged rooms and yards, either from your own experience, through your own stager, or from a local staging company.

2. **Role-Play Scripts**
   Practice scripts for both the staging portion of the listing presentation and the delicate staging consultation. Participants can take turns playing the role of both the agent and the seller.

3. **Review Agent Guide**

   a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

   b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

   c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

5. Lead Capture and Conversion

Leads are precious, don't let them slip away. Learn proven techniques to get to the right table with the right lead.

- Learn to treat every lead as gold.
- Discover how to increase your conversion rate through better scripts and dialogues.
- Understand why to reinsert yourself in the conversion process—don't delegate.

Choose Your Training Focus

Options

1. **Design Lead Sheet of Great Questions**
   Compare and evaluate two or more different lead sheets or assessment forms for effectiveness and thoroughness. Design a lead sheet with great questions that will help agents find out what prospects need, provide answers and solutions, and capture them.
2. **Role-Play Scripts for Capture and Connect**
   Practice scripts for capturing, connecting, and converting. Role-play ways to address objections.
3. **Cultivate Relationship over Time**
   As a group, discuss and decide on appropriate action plans for keeping in relationship with prospects. Design actual content for a series of direct mail, emails, events, and phone calls for the next year.
4. **Review Agent Guide**
    a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.
    b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.
    c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

6. Internet Lead Capture and Conversion

Catch the right people in your Web by maximizing your internet skills.

- Avoid running a free Internet information desk.
- Learn to present offers that generate the right kind of responses.
- Understand how to filter and capture contact information through registration.
- Develop systems to respond to leads immediately.

Choose Your Training Focus

Options

1. **Drive Traffic to Your Website**
Focus the session on what it takes to drive traffic to agents' websites. Choose a couple of great websites and evaluate for results and use of all available tools. Discuss offers, content, registrations, data filtering, web "hit" analysis, pay-per-click, search engine optimization, etc. Invite a technology specialist or outside consultant to be involved in the discussion. End the session with every agent designing a website plan, or changes to their existing website, with an action item plan to put into place immediately to get it done.

2. **Role-Play Scripts for Capture and Connect**
Since there is a great need to call an Internet inquiry back as quickly as possible and capture them immediately, spend the session exclusively on practicing scripts and handling objections.

3. **Cultivate Relationship over Time**
As a group, discuss and decide on appropriate action plans for keeping in relationship with Internet prospects. Design actual content for a series of emails and phone calls for the next year.

4. **Review Agent Guide**

   a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

   b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

   c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

7. Creating Urgency to Buy

Compelling arguments for buying a home change as quickly as the market changes. This agent guide helps real estate agents work efficiently and effectively with their buyers.

- Provides an understanding of economic and market-driven reasons why it is a good time to buy now.
- Gives insight on what properties people will buy.
- Explains what has to happen for them to buy.
- Shows examples of data that can be used to help buyers understand why it is a good time to buy.

Choose Your Training Focus

There are a variety of ways agents can benefit from this multifaceted topic. Depending upon the expertise of instructors, training can be structured to fit their skills and the needs of agents.

Options

1. **Become an Expert on the Economy and the Local Market**
   Being the local economist of choice can set an agent apart from the competition. This training option focuses exclusively on what kind of information agents should know, where to gather data, and how to present it.
   Prepare: Gather economic and real estate data as well as articles and graphs from local news sources and the MLS. If possible, ask an expert on the local economy to cofacilitate the session.

2. **Create a Best-Buy List**
   Buyers will make an offer on a property when they see houses that meet their criteria and are the best buys in the market. Spend a training session creating a best-buy list for a price range or neighborhood that is the most active in your area. This session should be facilitated by an agent who has a best-buy list. Get agents to actively participate in a discussion on the strengths and limitations of proposed properties. Talk with the group about tracking what happens to properties on the list you generate in class.
   Prepare: Bring samples of best-buy lists. Make sure you'll have access to the MLS in class so you can view possible best buys online. Contact participants in advance of the session and ask them to bring information on properties to consider for a best-buy list.

3. **Role-Play Scripts**
This agent guide contains a lot of scripts. A training option is to focus exclusively on practicing scripts and going further with handling objections that are difficult for participants. The facilitator can role model scripts with volunteers and participants can break into pairs for practice.
Prepare: Make notes for yourself about scripts or scenarios you want to cover.

4. **Review Agent Guide**

a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

8. Bulletproofing Transactions

In a shifted market, as sellers feel they are selling too low and buyers feel they are paying too much, deals can fall apart when buyers and sellers take a hard line approach to negotiating issues in the contract-to-close period. Learn how to avoid the most common problems:

- Buyer's remorse
- Inspection-and-repair issues
- Funding
- Low appraisals
- Communication problems

Choose Your Training Focus

Options

1. **Discuss Pitfalls in Your Local Market**
Ask everyone what problems they are encountering in the contract-to-close period. Write the issues where everyone can see them. Facilitate group brainstorming to solve the problems and develop a list of resources and people to help with these issues.
Prepare: Ask a transaction coordinator to cofacilitate a discussion on the most common problems in the contract-to-close phase and how to avoid them. Let agents know they should be prepared to discuss challenges they have faced, how they have resolved the issue, and what they would do differently in the future.

5. **Role-Play**
Ask for volunteers to role-play a buyer or seller agent while you represent the other side of the transaction. With your volunteer, negotiate a solution to a given problem. Ask the rest of the group about their ideas for other solutions, then repeat the role-play with another scenario.
Prepare: Prior to the training session, create a list of problems that can happen in the contract-to-close period.

6. **Review Agent Guide**

a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

9. Expense Management

This agent guide will help the agents in your Market Center survive a shifting market with a healthy margin.

- Examines income and expenses.
- Recommends where to cut excess spending.
- Shows how to maximize existing resources.

Choose Your Training Focus

Options

1. **Find Your Margin**
   Help agents find their current margin given current market trends. Walk attendees through a step-by-step analysis of their local market and personal production. Then, add up their personal and business expenses and subtract them from their projected income. They will leave class knowing exactly what their margin is!
2. **Protect Your Margin**
   A shifting market calls for a tighter budget. Teach your agents to cut their expenses while developing creative techniques for maximizing their existing resources. Facilitate a group discussion on how agents have found ways to cut certain expenses. Depending on class size and time constraints, you may decide to combine options one and two.
3. **Review Agent Guide**
   Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points. Use the "Stop and Think" exercises to engage attendees in discussion. Talk about specific steps that need to be taken to gain mastery of areas identified as needing improvement in the Action Plan.

Prepare

- Print out the latest MLS statistics on pendings vs. actives and average days on market (DOM).
- Review the P&L statement from Appendix A of *The Millionaire Real Estate Agent* (MREA). Bring a copy of the MREA to class.

10. Effective People Leverage

Leverage is the name of the game in a shifting market. This guide is for solo agents, agents who work with assistants, and Megas who are running their own team!

- Find new resources and maximize Allied Resources.
- Hire the right people.
- Evaluate your people.
- Evaluate your role.

Choose Your Training Focus

Options

1. **Change the Way You Do Business**
Poll the class to find the tasks they either regularly perform or subcontract to others. Discuss which tasks give the most joy and are the most dollar productive. Make a new list with all the tasks that can be assigned to others and then poll the class to develop a list of who the best candidates are to get these tasks done.

2. **Review Agent Guide**

   a. Use PowerPoint slides (included on CD with printed version of this manual, or available for download from the KWU website) to cover important points.

   b. Use the "Stop and Think" features to allow agents to work on their own and to engage the entire group in discussion.

   c. Give time for agents to score their Action Plans and to decide on next steps. Review these with them.

Prepare

1. Read *The Millionaire Real Estate Agent* (MREA).

2. Take the Recruit-Select course.

11. Short Sales, Foreclosures, and REOs

When the number of foreclosures in a market grows, specific needs are created that are best met by the professional skills of a real estate agent.

- In the preforeclosure stage, homeowners need the help of a professional to alleviate their financial crisis.
- When the property goes to auction, investors need a professional to help them navigate the choppy waters of auction sales.
- Postforeclosure, when the lender takes possession of the home, financial institutions need a professional to help them quickly improve their books by rapidly selling a well-priced property.

Choose Your Training Focus

Options

1. **The Foreclosure Process**

- Ask students to read "Why Do Properties Go into Foreclosure." Ask them to envision the homeowner's emotional state. Facilitate a group discussion on how they could set themselves apart from the numerous ads and calls proposing questionable schemes that the homeowner will receive.
- Ask students what their mindset will be when they are working with people in this situation.

2. **Short Sales**

- Walk students through "The Six Key Sources for Short Sales." Ask them which sources are the most likely to yield clients. Challenge students to list two things that they will do to find short sale candidates. Ask them to specify by which date they will complete the activities they've listed. Call on students to share what they are going to do by when. Challenge them to hold each other accountable in the upcoming days.
- Walk students through "Qualifying Short Sale Candidates." Ask students to pair up and to decide who will play the role of the homeowner and who will play the role of the real estate agent. Give them a scenario in which the homeowner may be financially solvent. Challenge them to walk through a role-play in which the agent asks the homeowner for a credit report. Ask students to switch roles. Ask them to role-play a situation in which the homeowner has experienced a great hardship and the agent must ask for documents which demonstrate the hardship, while determining whether or not the homeowner will be cooperative.

- Walk students through "The Eight Steps to a Short Sale." Ask them to specifically identify systems and tools they will use to track communication with the lender. Give them a scenario in which the lender calls and wants to know when the last payment was made compared to when a specific event occurred. Ask them how they are immediately going to be able to pull this information.
- Ask students if they are going to leverage people, systems, or tools when negotiating with the lender. Tell them to imagine that they find a short sale opportunity later that day. Ask them to describe what they will do to make sure the short sale is successfully negotiated.

3. **Foreclosures**

- Give an example of a property that is in preforeclosure and that has a scheduled public auction date. Given the public auction date, ask them what their next steps would be to determine if the property was indeed a good match for a specific investor.

4. **REOs**

- Ask students to list the systems, tools, and people they would leverage to accomplish all of the services an agent provides in working REOs. Tell students that if they are going to pursue REOs, they must be ready to move when the opportunity arises. Ask them what challenges they might face in getting their systems, tools, and people in place and how they can overcome those challenges.
- Challenge students to list who they can contact, and when they will do so, to break into the REO business. Ask students to share their list and to hold each other accountable to making contact.

Prepare

- Gather information about the number of foreclosures in your market. Compare the number of foreclosures currently in the market to the number in prior months and in prior years.
- From the newspaper, court records, or an online resource like foreclosure.com, compile a list of specific properties that are in preforeclosure. Note the public auction date.
- Contact an agent who specializes in short sales and ask them to share the systems that they use to track communications with lenders.
- Contact an agent who specializes in working with investors and purchasing properties at public auction. Ask them to share their methods for evaluating properties.
- Contact an agent who specializes in REOs and ask them to share a copy of their REO-related financial statements.

12. Financing Solutions

Credit is tightening and rates are on the rise. By increasing their understanding of financing options, agents can help more buyers and sellers meet their goals.

- Discover what sellers can do in a changing market—including concessions, buydowns, leases, wraps, and down payments.
- Learn what buyers can do in a changing market—including using 401(k) plans, IRA transfers, pledged asset mortgages, gifts, lender buydowns, and more.
- Identify what options are available to lenders—including automated underwriting systems, amortization periods, grants, bond programs, private lending, and more.

Choose Your Training Focus

An Agent's Guide to Financing Solutions differs significantly from the other agent guides. More than a course, it is essentially a full-fledged book and resource guide. As such, the instructional techniques are different and there is a separate short guide (on the following pages) which focuses exclusively on this topic.

Teaching options are outlined below, but agents should also be encouraged to read it on their own and then keep it at hand for easy reference. It is available for purchase or for free download from www.kellerwilliamsuniversity.com.

Options

1. **Cohost with a Trusted Loan Officer**
Bring in a loan officer who works regularly with your Market Center, and either conduct an interview with them or have them explain the most salient points of the course.

2. **Use the Instructor Supplement**
Use the twenty-nine one-page summaries on the following pages as a starting point for discussion and analysis. These summaries are short, easily accessible, and instructor friendly. The course can be divided into several sessions to allow time to review each. Two to three sessions of 60 to 90 minutes for each of the three parts of the book would be sufficient.

A Short Guide to Financing Solutions

Roger Higle

> Twenty-nine Legal, Proven Ways to Get the Deal Done <

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Table of Contents

Introduction

The purpose of this guide is to expose agents to ideas about financing options that may be available to buyers (to help them get the home they thought they might not be able to have) and sellers (to enhance their strategies for winning a sale and seeing it closed successfully).

The idea is to open your eyes to possibilities you probably did not know about and at the same time, alert you to potential risks associated with certain financing options.

Overall, digesting this material should help you be a more effective counselor to your clients, both buyers and sellers. That, in turn, improves the prospects for your business.

David Reed's main message in *An Agent's Guide to Financing Solutions* is that the three main barriers to a successful real estate loan—the Buyer's income, assets, and credit—can be addressed by a variety of lending products, techniques, and technologies. The best real estate agents will be those who build a real understanding of the world of financing.

This book is presented in three parts corresponding to financing strategies that can be initiated by sellers, buyers or lenders. Each has opportunities to create solutions, and associated risks or issues that must be recognized and monitored.

What Sellers Can Do

There are three distinct players in a real estate transaction: the seller, the buyer, and if financing is involved, the lender.

When markets shift, the tide shifts as well. In a sellers' market, the seller holds most of the cards. When real estate is soft, the buyer typically has the upper hand. Lenders, with all of their resources, are constantly trying to adjust to market moves and tighten credit, loosen lending guidelines, or invent new loan programs to serve a new market.

Sellers are in a unique situation because the main asset in the transaction belongs to them. Nothing happens unless the seller decides to move their property. They own the equity in the property as well as the home itself.

Sometimes the asset can also be a liability. If the current real estate market is stacked with inventory and a seller wants or needs to move a property soon, then the seller needs to be aware of every tool that's available.

Occasionally interest rates are too high and sellers need to help offset those high rates. Sometimes buyers don't have enough money for a down payment or they are having problems qualifying for a loan.

Sellers can help themselves by assisting buyers facing income, asset, or credit barriers. Sellers may fund different types of buydowns to lower rates, provide down payment assistance, or carry all or part of a newly created mortgage note.

Too often, sellers who are trying to move a property in a slower market make the mistake of simply slashing their asking price. But with good advice from a knowledgeable real estate agent, instead of giving away their equity in a "fire sale," they can implement techniques described here and get their property sold at a fair price. When that happens, the real estate agent can win a client for life.

1. Seller Contributions

Often misnamed "seller concessions" seller contributions are really a range of incentives or other financial offerings designed to make the deal more attractive and doable for a buyer.

Seller contributions that make a deal more attractive must address market conditions while also meeting lenders' requirements and disclosure requirements.

Opportunities

- Closing cost credit reduces the cash the buyer must contribute at closing without lowering the sales price. The buyer's total financed funds will increase by that amount. But spread over the life of a mortgage, the increase pales by comparison to the thousands of dollars that don't have to be produced up front.

Watch Out!

- Certain loan programs may limit the types of closing costs a seller can pay. Lenders will set contribution guidelines limiting the dollar amount of total seller contributions to a percentage of the sales price.
- Guidelines usually direct seller contributions toward one-time or "non-recurring" buyer costs (escrow fees, title insurance, discount loan points, or loan origination charges). "Recurring" costs (insurance payments, mortgage interest and property taxes for example) are normally out of bounds.
- When writing purchase contracts, agents sometimes include a "repair allowance", viewed as a seller contribution toward the cost of future repairs to be made by the buyer. Allowances like this are unacceptable to lenders. Sellers may not give cash at closing. But, in addition, lenders look askance at any contract references to "needed repairs" which could affect the value of the property.

2. Seller-Funded Permanent Buydowns

Here, a seller chooses to pay to lower the buyer's mortgage interest rate. Depending on the extent of this buydown and how long the buyer owns the home and pays the mortgage, the value to the buyer can add up to a very sizeable amount of money.

Opportunities

- A seller buydown typically pays the up-front lender fee to lower the interest rate, which results in accumulating paid interest savings for the buyer as long as the buyer owns the property, or for the life of the loan. These savings could easily add up to many tens of thousands of dollars.

Watch Out!

- Buyers who own property for only a short time will not benefit as much as long term owners. For this type of buyer, seller credits toward one-time closing costs make a lot more sense for everyone.

- If your seller is considering this approach, make sure you check the fine print of the lender's loan lock provisions. Be sure your seller's money is truly paying down the loan rate as opposed to paying other lender charges to the buyer. Similarly, rate buydown dollars from your seller should never be confused with charges like lender loan origination fees.

3. Seller-Funded Temporary Buydowns

Buydowns can also be structured to adjust the buyer-paid interest rate for a limited number of years. This can be very attractive in the short term to rate-focused buyers.

Opportunities

- This type of program, of course, only works with fixed rate mortgages, but it can cover the first two, three or four years or more of the buyer's loan. This allows your seller to reduce the buyer's ongoing loan cost (monthly payment) considerably.

- For buyers who are "just barely qualifying" this could afford excellent breathing room for them in the early stages of home ownership. This approach by your seller can actually help a buyer to be qualified by their lender in the first place!

Watch Out!

- Temporary buydowns are just that—temporary! When the buydown period ends, payments will increase for the borrower. Disclosure is critically important.

- If the buyer is using a lender you don't know and regularly work with, be sure to check all the details of the proposed buydown and compare it to ones

4. Owner Financing

A willing seller may be able to keep their selling price intact by offering financing to a buyer.

Opportunities

- This may be the right choice for a seller who needs to sell as soon as possible for the best possible price. This strategy expands the potential market for buyers to those who might not qualify with a lender for any number of reasons relating to their credit, verifiable income, or other issues.

- The seller creates an 'investment" that can produce an annuity with a very good rate of return for many years.

Watch Out!

- The seller needs to become very well educated on how to qualify a potential buyer (how to get credit, income, debt ratio, and other accurate personal historical data on the buyer—and how to verify that data).

- The seller needs legal advice to review contract documents, as well as title and escrow services to conduct a title search and closing.

- Buyers attracted to seller financing may have income sources including part-time work, bonus income, royalty income, dividend and interest income from investments, or they may be newly self employed.

- A seller who finances needs to get a substantial down payment and ensure that the property is adequately insured by the buyer and that initial property taxes are pre paid and a tax payment plan is established.

- If the buyer stops paying, the seller will have to proceed like a bank or other lender and foreclose on the buyer.

5. Contract for Deed

A contract for deed agreement to purchase is similar to a seller-financed purchase. The major difference is that the deed to the property is not conveyed until the purchase price is paid in full. The property being transferred in this arrangement must be owned free and clear by the seller.

Opportunities

- This approach lends itself well to selling properties that may be difficult to compare due to unique construction, number of bedrooms, etc.
- Terms are at the discretion of buyer and seller. Contract for deed is often used to allow the buyer to move in while they are preparing to qualify for a conventional loan (to pay off the contract for deed terms).
- The seller is provided with immediate income.
- For buyers, this can be a way to move into a property they intend to own while avoiding renting from the owner.
- The owner can often command a higher monthly payment under these terms than they could in a rental arrangement.

Watch Out!

- The contract for deed may be seen as a last resort for a seller who really wants to cash out their equity quickly.
- There may be local legal restrictions on these arrangements, including restrictions on "repossessing" the property.
- The seller should definitely consult an attorney. Ownership does NOT transfer at signing, so it should be easier (than in foreclosure) to take back the property if the buyer stops paying.

6. Seller Seconds

This is a mortgage issued by the seller to the buyer that is placed in a subordinate or second position to an existing first mortgage from a conventional lender.

Opportunities

- A seller second can be a great incentive to buyers. It can help them purchase by putting down less cash—leveraging their assets.
- Second mortgages typically carry a higher interest rate than first mortgages, an advantage for the seller over other investment options.
- A seller second can open new opportunities for buyers in markets where conventional lenders are tightening their loan to value guidelines and buyers need a way to close the resulting financing gap. Lenders who want to limit their exposure may agree to a "Combined Loan to Value" guideline that supports a seller second.
- Seller seconds may help buyers reduce their conventional loan needs below the PMI (private mortgage insurance) level, saving significant dollars per month.
- Seller seconds can also help in larger purchases, reducing the amount buyers would need to borrow conventionally, bringing their remaining loan requirement within reduced rate "jumbo" loan territory.

Watch Out!

- Some conventional loans prohibit secondary financing.
- Second loans not disclosed to conventional lenders are illegal.
- Sellers granting a second loan must file a lien on the property.

7. Lease with Option and Lease Purchase

A lease with option to purchase is an agreement that the leasing party can buy (or not buy) the property at lease end for an agreed price. In a lease purchase agreement, the leasing party commits to purchasing the property immediately at lease end.

Opportunities

- In a lease purchase situation, the owner agrees to apply a portion of the monthly rent payment toward either the buyer's down payment or closing costs at time of purchase.

- Lease purchase agreements can be a way for sellers to find a buyer, acquiring both a buyer commitment for the future as well as rental income now, to defray monthly obligations.

- A seller's offer of lease purchase can also attract a buyer who wants the property but needs a little additional time to complete loan qualification and does not want to or cannot make an immediate down payment.

Watch Out!

- Terms of payment in a lease purchase should conform to local rental data for comparable homes. The amount paid monthly to be set aside for down payment of closing costs should be *in excess* of the going rental rate. If not, the lender arranging the mortgage at lease end may not accept the set aside funds. Instead, the lender will disqualify the funds by declaring them a "gift" from the seller to the buyer.

- Lease purchase documents should be drawn up with legal counsel to address eventualities such as the buyer not qualifying to purchase at lease end or a market value decline impacting the agreed purchase price and lender's terms.

8. Selling to Relatives

Selling to relatives is no different, in theory, than any other transaction. In reality, this is often not the case and the differences can be both positive and potentially negative, especially where lenders are concerned.

Opportunities

- Selling to relatives can be a good option if the seller is having trouble moving the property or if they desire to keep the property in the family.
- If the property is owned outright, there are few challenges, but if a conventional loan is needed to complete the deal, it can get tricky.

Watch Out!

- Creating conditions where a lender is convinced that this is an "Arm's Length Transaction" may be challenging. In other words, conventional lending happens in an environment where each party is acting in their own interest, not the interest of the other.
- The lender will want to see a sales price based on appraised value. The desire to provide a great price for a family member can get in the way of establishing a loan on appraised value. This is especially true if the purchasing relative has little or no down payment.
- Family members may "gift" equity in a transaction to reduce the amount of mortgage money required. The lender must still be satisfied about appropriate value to protect their loan. Additionally, gifts have tax consequences and IRS guidelines govern gift amounts.

9. Seller-Assisted Down Payments

Nonprofit groups formed in recent years offer down payment money to certain buyers. The payment is linked to a contribution to the nonprofit by the seller, but the pathway is not hurdle-free. Assisted down payments may be barred in certain situations.

Opportunities

- This can be a potentially simple and attractive way to secure a buyer who is otherwise qualified but struggling to find down payment money.
- The nonprofit provision becomes part of the purchase contract.
- The nonprofit receives the contributed amount, plus a processing fee, from the seller and sends the funds directly to closing as a credit to the buyer. The funds do not go directly to the buyer.

Watch Out!

- Sellers may be tempted to increase the price of their property to pay for the down payment assist. But this can overvalue the home and block the conventional loan.
- Seller assists of this kind need to conform to seller concession or contribution guidelines set by lenders (see chapter 1).
- The down payment assistance industry is facing legal challenges by the US Department of Housing and Urban Development (HUD). The industry expects fine tuning of these programs will result. A few of the nonprofits involved are also being investigated by the IRS. Stay tuned.

10. Wrap Around Mortgages

So-called "wrap" mortgages are loans that are wrapped around the original mortgage on a property. The original loan is not satisfied directly at closing—the "wrap" loan is dedicated to paying on the original loan.

In effect, the buyer is using the "wrap" loan to make payments to the seller, who in turn continues paying on his original loan while deeding the property to the buyer. For this to happen, the original lender must agree to waive the "due on sale" provision in the original loan.

Opportunities

- This can be an alternative when seller financing won't work because of the seller's loan on the property.
- The original lender may grant permission for a "wrap" to be created.
- Also, the buyer may qualify to assume the original loan.

Watch Out!

- Getting permission to "wrap" from lenders is not easy.
- The fact that transferrable or assumable mortgages have fallen out of favor has not helped. The VA, for example, stopped issuing them in the late 1980s.
- Assumable loans that exist today may carry buyer qualifying language.
- There is a temptation for buyers and sellers to create undisclosed wrap agreements. However, lenders may commission ongoing research of title records looking for undisclosed liens. If discovered, the original lender can foreclose on the seller and the buyer would lose everything, including their down payment.

What Buyers Can Do

If the market has changed directions and sales are at a standstill, buyers can still help themselves in a variety of ways. All too often potential buyers never enter the real estate game because they incorrectly assume they wouldn't qualify. This is your opportunity to educate them on available financing solutions.

Perhaps they think that they can't buy without 20 percent down. Maybe they believe a collection procedure last year lowered their credit rating too much for them to buy. Or, they think a layoff, divorce, accident, etc., has put home buying out of reach.

Too often buyers research their own situation and determine that there's no reason to apply for a mortgage because their credit score is a certain number. Or they had a bankruptcy five years ago. Perhaps they "discover" that the FHA debt ratio requirement is 41 and theirs is just a couple of points higher.

Buyers need your help to break through these myths. The following chapters will reveal ways buyers can overcome income, asset, or credit concerns on their own. And you'll be there to guide them.

11. Using a 401(k)

Used properly, a 401(k) account can be an excellent source of funds to help a buyer find down payment money to purchase a home. There are two options—cashing in a portion of your funds tax- and penalty-free, if you're a first time homebuyer, or borrowing the money, whether or not you are a first time homebuyer.

In Canada, a special provision called HBP (Home Buyers Plan) allows Canadians to borrow from their registered retirement savings plan—up to $20,000 for an individual or $40,000 for a couple.

Opportunities

- US first time homebuyers may permanently withdraw up to $10,000 from their 401(k) for down payment or closing costs and are not required to repay it. A first time homebuyer is defined as a person who has not owned a home within the last three years. In Canada, the definition is a person who has not owned a home for five years.

- Most 401(k) plans allow loans against the account, with requirements including repayment within five years (fifteen in Canada), and a maximum borrowed amount of $50,000 ($20,000 for individuals and $40,000 for couples in Canada).

Watch Out!

- Funds borrowed from an investment account are no longer "working" toward the growth of the investment. Understanding how your retirement investment is performing may impact your decision on whether to "tap" these funds.

- If an employee leaves the company, any unpaid loan balance becomes due immediately and withdrawals above and beyond the allowed 50 percent of total funds limit are subject to penalties.

12. Temporary IRA Transfers

Individual retirement account (IRA) funds can be withdrawn at any time, but there can be penalties and taxes due on the amounts taken. However, there are ways to temporarily use these funds without penalty.

Opportunities

- Funds withdrawn from an IRA can be replaced in full within sixty days without penalty.
- It is possible to take a home equity loan against their down payment on the property being purchased as a means to repay the IRA account within sixty days.
- The lender underwrites this mortgage as a "zero down" loan with no PMI required.

Watch Out!

- The sixty day repayment rule is hard and fast, so any delay in closing could jeopardize chances of avoiding a penalty and tax.
- Some IRAs also require that an additional 20 percent be withheld to pay income taxes, so the total amount withdrawn by the Buyer might be 20 percent higher to cover this need. In these cases, when the loan is repaid, the 20 percent is treated as excess withholding and returned at tax time next year, or applied to pay taxes due the year the home is purchased.
- Never put yourself, as an agent, in the position of giving tax or retirement investment advice to your client.

13. Appraisable Assets for Down Payment and Closing Costs

When every possible resource needs to be explored, some non liquid assets can be turned into cash for a down payment.

Opportunities

- Anything that can be independently appraised can be used to generate funds to help buy a home. Collections, artwork, rare books or stamps, automobiles, airplanes—anything that has a value in the public domain is eligible.

Watch Out!

- The idea of borrowing money against the apprised value of goods is not likely to solve the buyer's problem, because the lender will need to count that new debt in deciding how much he is willing to lend.

- Buyers can cash in assets of this kind and show the lender a copy of the appraisal used as a basis for the sale price. This is how a buyer can convince the lender to count these "new cash assets" toward the mortgage package and home purchase. However, lenders may not be familiar with the value of the appraised asset. This can mean uncertainty and delays while the lender tries to independently accept the stated value.

14. Pledged Asset Mortgages (PAMs)

There are ways that buyers, with assets they don't want to use to purchase real estate can pledge those assets to the lender in lieu of cash.

Opportunities

- PAM programs do exist and are not that uncommon. Fannie Mae, for instance, has a PAM program. Some investment banks offer them too.

- Most financial assets can be used for a PAM, although Fannie Mae requires that the asset be in the form of a certificate of deposit. Other institutions will allow pledges of other investment instruments, like stocks for example. Pledges of stock for a down payment are normally exempt from capital gains and sales commissions.

- Conventional PAMs ask that 30 percent of the purchase price be pledged. No funds are transferred. The CD remains where it is but with a claim against it, payable to the lender.

- Family members of the buyer can pledge their assets in lieu of the buyer pledging their own.

Watch Out!

- If a property purchased in part through a pledge is foreclosed, the buyer loses the house and the pledged portion of their asset.

- The value of invested assets can change quickly, and if the value falls below the pledged amount, the lender can ask for an additional pledge to compensate. PAMs may call for a pledge at least 20 percent in excess of needed value in order to cover possible value declines. PAMs may also have pledged amounts capped on the upside to take care of asset value increases.

15. Equity Transfers and Bridge Loans

Sometimes buyers have non liquid assets that can be used to help purchase another property. Temporary or permanent transfers can be made of equity in one property to create equity in another property.

Another form of temporary loan is the Bridge Loan. It can be based on equity in another property or may be an additional temporary loan to assist purchase that will be paid off when the buyer's former home or other property sells.

Opportunities

- An equity loan or a bridge loan can help buyers purchase a new home while their current home is on the market, without need for a contingent offer.

- The equity loan can more easily be done by setting up a home equity line of credit (HELOC) using the current home as collateral. Often an appraisal is not necessary—the lender has other "online" means of establishing value for this purpose. HELOCs and equity loans tend to be relatively inexpensive compared to traditional loans.

Watch Out!

- In the case of a HELOC, a 1 percent origination fee is charged by some institutions when the HELOC is retired due to the sale of the property. If the home is listed, be prepared to pay this fee. Remember also, equity line payments are included in debt ratio calculations.

- In equity and bridge loans, the market is very competitive and buyers are well advised to do some side-by-side comparisons of terms among several lenders. Focus on the actual cost of money being borrowed. Bridge loans are usually more lenient on debt ratios because they're understood to be short term.

16. Down Payment Sources and Gift Funds

Gifted funds are certainly a potential source of money to buy a home. Approved sources of such funds are: family members, nonprofits, local and state agencies, churches, domestic partners, and trade unions.

Gift affidavit forms and an "ability to give" requirement are used to verify the source of funds, and that the funds exist. Most organizations in the nonprofit, government, and religious organization arenas have their own traceable systems that the lender can tap into for verification. Receipt of funds and deposits must be documented too, of course.

Opportunities

- Gifts toward a home purchase can be any size, but both FHA and conventional loans carry minimal "skin in the game" requirements for minimal funds from the actual buyer—$500 in the case of FHA and 5 percent of the sales price for conventional lenders—if a conventional loan is being used at all.

- No buyer funds are needed if the gift is 20 percent or more of the purchase price.

Watch Out!

- Lenders and the IRS both scrutinize nonprofits carefully to verify their status. Decisions to disapprove a nonprofit source can be last minute, so do everything you can to verify their status up front.

- The FHA has recently issued a rule that virtually eliminates third-party non-profits from providing gift funds that have seller participation. This rule is being challenged.

17. Non-Occupant Coborrowers

Non-occupant coborrowers is another term for cosigners, and they are typically buyer family members who will not live in the property. People have been helping borrowers qualify in this way for many years, but issues can arise.

Opportunities

- Nonoccupant coborrowers can cosign a mortgage application and the mortgage itself for an FHA loan.

- In a conventional loan situation the coborrower must make a complete separate application. Their income and debt are added to the applicant's to arrive at one debt ratio.

Watch Out!

- Recent changes have restricted the number of nonoccupant coborrower loans. Today, the rule is that while these coborrowers are welcome to participate, their credit is not allowed to overcome bad credit for the primary borrower.

- Cumulative debt created when a cosigned loan is approved becomes part of the credit report of the coborrower. Late payments will negatively affect the credit of both borrowers.

18. Employer Assisted Mortgages (EAMs)

This kind of help for a buyer from their employer may take the form of an actual mortgage or simply financial assistance. Employers are one of the few legal sources of gifts and can also act as a lending source.

Three ways a company can help an employee as a buyer are: direct lending, down payment assistance, and 401(k) loans.

Opportunities

- In a direct loan, which is always a second loan, the employer makes the loan to the employee, collects payments from them and is recorded on the title as the lienholder.

- Down payment assistance (which is more common) is also in the form of a second mortgage. It is usually not repaid monthly but rather in a lump sum at closing when the home is sold. The loans are forgivable and most carry zero interest.

- 401(k) loans by employers use the same approach discussed in chapter 11, except that the amortization period is typically longer (15 years instead of 3 to 5 years). This greatly reduces the monthly cost for the employee.

- Sometimes, employees can successfully initiate an EAM benefit where none has existed before by assembling a team of vendors (lender, attorney, title, escrow, appraiser, etc.) offering discounted rates and fees and bringing them to the company's Human Resources department for approval.

Watch Out!

- Be sure your client clearly understands the terms of any of these employer supported loans regarding things like amortization period, interest and fees charged, payoff rules, and tax consequences to the employee buyer.

What Lenders Can Do

When lenders face large numbers of defaults and foreclosures, they are more open than ever to helping struggling homeowners with their existing mortgages. They may adjust the terms, roll back late payments to the back of the mortgage, or even work with an agent on a short sale. They want to avoid the costly process of taking the home back and the potential liability of owning it themselves (a REO) if it doesn't sell at auction.

What's not immediately evident is that many are still eager to lend money to good buyers. Lenders have to maintain a pipeline of business. With buyers challenged to meet conventional requirements, lenders are still offering a wide array of programs to help those buyers safely purchase their home.

These last chapters identify different things lenders can do to help buyers get approved for a mortgage.

Mortgage loans come from different sources. They can come from a bank, a credit union, a mortgage banker, or a mortgage broker. All but the mortgage broker make home loans directly; the mortgage broker only arranges the financing between a lender and a consumer.

Regardless of the source, mortgage loans are virtually identical from one lender to the next. There are certain exceptions to this rule, commonly called "portfolio" loans where the lender makes their own determination of credit risk with no intention of selling the loan. But a mortgage is still a mortgage—lenders price all their various loan offerings from the same indexes.

19. Lender-Funded Buydowns

As with a seller buydown (chapter 3), a lender can make an adjustment in interest rates to help buyers stretch their debt ratios, or in anticipation of increased buyer income in the near future.

Opportunities

- Through interest rate adjustments on a loan of a given amount, lenders can create "room" in the loaned funds to cover a down payment and/or closing costs. Of course, we're talking about upward rate adjustments here. The note will cost the buyer more over time, but they will avoid the need to find cash for down payment and closing costs.

- The lender may also offer partially funded adjustments, with the buyer paying a portion and the lender paying a portion.

Watch Out!

- Lenders should not be suggesting a buydown if the buyer does not anticipate increased income soon, or if the buyer is uncomfortable with the new rate.

- Encourage your client to check their options among these programs because rate terms and qualification details can vary widely from one lender to another.

20. The "MyCommunityMortgage" (MCM)

MyCommunityMortgage is a special Fannie Mae program, known as the MCM, aimed at solving first time homebuyers' challenges.

Opportunities

- The MCM program exists with two levels of approval, a standard approval and a "plus one", which is targeted at applicants with less than perfect credit—it's called Expanded Approval Level 1.

- MCM does not require a down payment and does not require a minimum investment from the buyer. It does include a mortgage insurance premium, but that premium is smaller than the premium for mortgage insurance in FHA loans.

- MCM also allows for seller contributions to buyer closing costs and "alternative credit" documentation—payments to utility companies, for example. The program also allows for limited temporary rate buydowns and there are no loan prepayment penalties.

Watch Out!

- Income limitations are set firmly. To see if your client qualifies, have them check at Fannie Mae's website: www.efanniemae.com/sf/refmaterials/hudmedinc. The income levels described on the site are based on gross income.

- All MCM approvals run through Fannie Mae's automated underwriting system and cannot be underwritten manually, unlike FHA loans. Manual underwriting allows for more flexibility in adjusting factors in ways that might help the borrower. The MCM system is a tight one that does not allow for this kind of "tweaking" on behalf of the applicant.

21. Leveraging Automated Underwriting Systems

Automated underwriting systems (AUS) have pretty much replaced manual underwriting everywhere. They were first developed in the 1990s by Freddie Mac and enable instant approvals. The AUS computer application rapidly evaluates credit scores, income, debt ratios, assets, and much more. It then creates a written report to the person who input the data—often within minutes.

The system also provides lenders with a list of things they need to collect in order to fund the loan and to make it marketable in the secondary lending marketplace.

Opportunities

- Despite the extensive automation involved, AUS processed applications can be "tweaked" manually after initial reports are received. Experienced loan officers know how to do this and there are many factors that can be adjusted starting with the loan amount, term of loan, or financial asset balance corrections or updates.

- The AUS system can be used to run a test application with a fictional address to test a buyer's qualifications—a great help to potential borrowers who might be sitting on the sidelines thinking they cannot qualify, when in fact they can.

Watch Out!

- Everything in a loan application needs to be verifiable by the underwriter and should be presented openly and honestly by the buyer.

- A buyer is well-advised to do due diligence on lenders. Working with a knowledgeable, experienced person has advantages when processing through today's AUS systems.

22. Adjusting Amortization Periods

It is not true that all mortgage loans have terms of 15 or 30 years. Lenders often have discretion and this choice can make a very positive difference for the buyer, depending on the buyer's financial needs.

Opportunities

- First, adjusting the length of the mortgage changes payments, which in turn impacts debt ratio calculations and may affect qualification.

- Longer amortization periods mean the borrower pays more interest over time, but consumers have the option of paying extra on a monthly or periodic basis to offset that effect. Prepayment penalties have all but disappeared from the marketplace.

- For example, making one extra payment per year toward the principal on a 30 year mortgage will knock off about six years' worth of interest while also accelerating accumulation of equity.

Watch Out!

- As always, the borrower must be certain they understand how changes to the amortization period impact both their overall and monthly costs.

23. Adjusting Interest Rates to Cover Closing Costs

Lenders have a lot of latitude in the interest rates they may charge, and they use this discretion to maneuver loans in ways that attract the client by solving their most pressing needs—lower payments or additional funds to cover down payment and closing costs needs, as mentioned in earlier chapters.

There are also adjustable rate loans and hybrid programs that offer even more choices for the lender and the borrower. Loans are basically a commodity product set—most lenders have access to the same programs, but they use their experience and creativity to develop the most choices for customers..

Opportunity

- This latitude means experienced loan officers can adjust rates and term to help the buyer qualify with less money down. They may also be able to offset most or all closing costs, both recurring and nonrecurring.

- The larger the loan, the smaller the impact of a rate adjustment designed to provide funds to cover closing costs. In one example, covering $1,350 worth of fixed closing costs on a $50,000 loan might increase a typical loan interest rate by three-quarters of 1 percent while folding the same costs into a $500,000 loan would create an imperceptible rate change, maybe one-tenth of 1 percent.

Watch Out!

- Consumers need to understand that while some closing costs are pretty much fixed within a narrow range (appraisal fee or attorney's closing fee, for example), others vary depending on the size of the loan (title insurance, hazard insurance, property taxes). So, the closing costs a consumer chooses to have the lender "cover" can make a substantial difference in the rate adjustment necessary to get the job done.

24. State, Province, and Local Government Grant and Bond Programs

Lenders can work with a variety of government agencies that provide assistance to borrowers—through loans, grants, and loan subsidies.

Opportunities

- One example in the government realm is that governments often are motivated to help their emergency service and law enforcement "first responders" live closer to work. Often, moving closer to work would mean living in parts of the city that might not be affordable for those employees.

- The first place to check availability of government financial assistance is with local governments—they often issue down payment assistance and typically have similar qualification standards from city to city.

- Government assistance may come as a flat grant with no expectation of repayment, or as an interest free loan that does not have to be repaid if the owner holds the property for a required period of time—usually 7 to10 years. Bond-based programs are also created to fund loan benefits. They are often targeted at a specific borrower audience like veterans or first time home buyers.

Watch Out!

- Programs like these are often launched by governments with little or no publicity, so it's not easy to know what is available. Agencies tend to loan everything they have, leaving no funds set aside with time to communicate their availability.

- Many of these hard to discover programs are administered on a first come first served basis, so funds tend to run out before many applicants know they are available. Government programs may also carry preset interest rates that are not competitive.

25. Mortgage Credit Certificates (MCC)

Mortgage Credit Certificates (MCC) let buyers exchange part of their annual mortgage interest tax deduction for a reduction in their monthly mortgage payment, increasing their borrowing power. The MCC helps first-time buyers stretch their qualifying income by taking a tax credit equal to 15 percent of their annual mortgage interest.

Opportunity

- The MCC can be used in conjunction with any conventional or government loan and is restricted to first-time buyers who make no more than the median income for their area. They must also occupy the property purchased with this benefit, which lasts for the life of the loan.

Watch Out!

- The MCC should be pursued with a lender familiar with MCCs and how they work. It's worth searching. For example, on a $200,000 loan, the MCC benefit could have the effect of reducing the qualifying income required by 10 to15 percent.

- There is a "recapture tax" associated with MCCs. It runs for the first nine years of the loan and only applies when all three of these circumstances apply: the home is sold in less than nine years; there is a profit on the sale; the borrower's income increases by more than 5 percent per year. The recapture tax must be disclosed to the buyer when they apply for the loan.

26. Expanded Alternative Lending

Expanded Alternative (EA) loans are offered through Fannie Mae for people who have had credit bumps in the past but still qualify on debt ratio and income. EA programs relax credit score standards, and the loans can be zero down. Rates are a bit higher than market rate, but the rate can be lowered after buyers make payments on time for twenty - four months.

Opportunities

- Borrowers who might have assumed they could not qualify are surprised to learn they can, with the help of an EA loan.

- As pointed out earlier, applicants to this program can take advantage of the AUS automated technology to run a test and see where they stand.

Watch Out!

- EA programs offer an alternative to subprime loans or FHA loans. Unfortunately, many consumers are not aware that this "middle ground" between prime and subprime exists.

27. Subprime Lending

As its name suggests, this is lending to those with less than prime credit.

Opportunities

- Subprime lending is not a permanent solution for a consumer with lesser credit, but rather a temporary mortgage placed to help someone buy a home while they are repairing damaged credit.

- The typical subprime borrower is someone who had good credit up to a certain point when a catastrophic event (death in the family, job loss, divorce) damaged their credit severely.

- Because subprime loan rates are higher than conventional loans, the most popular subprime loan is the so-called hybrid—a cross between a fixed rate and an adjustable rate mortgage. The first few years are fixed before the loan rate becomes adjustable.

- The intended strategy is that the borrower use the first several years (the fixed rate period) to repair credit, then refinance.

Watch Out!

- Subprime lending should only be used when conventional or government offerings fail, and only when the buyer completely understands the nature and use of this type of loan.

- The most important item a subprime lender tends to review is payment history on rents because they show a borrower's first loyalty is to securing their housing.

- Refinancing requires some equity. That’s why zero down and subprime loans don’t go together. If this is the situation, wait to buy.

28. Private Lending

Private money is sometimes called "hard money" because it comes into play when conventional financing sources can't help. Private lenders are individuals or groups who form a company to provide financing using their own guidelines.

These lenders do have to conform to some guidelines regarding interest rates and terms, but their loans tend to be at higher than normal rates and for shorter than normal terms.

Opportunity

- Private lenders tend to focus on those who are about to lose their real estate in foreclosure, or people who want to pull equity out of property for other purposes.

- Private lenders seek people in need who also have plenty of assets, liquid and nonliquid.

- Private loans are typically interest-only loans and do not require much documentation from the borrower. Private lenders are looking for a high rate of return on their money, not foreclosures.

Watch Out!

- Private loans are strictly a Band-Aid, not a cure. They command higher rates and higher fees than normal in conventional lending. Their interest-only nature means payments tend to be a bit smaller, but principal is never paid down.

- Just as private lenders are looking to exit from the loan sooner rather than later, borrowers need to have their own exit strategy from these loans too. This is a legitimate way to acquire real estate, but be sure your client knows how they will refinance out of a private money deal and into a subprime or conventional mortgage. Private loans are a short term solution.

29. No Documentation Programs

Alternative loan programs have developed over the years that offer different levels of documentation requirements. Originally, they were intended to streamline the application process for more affluent and creditworthy buyers. More recently, this approach has crept into other loan programs. So-called "stated" loans are a reflection of this trend.

Lenders today have a range of documentation requirements, from "fully documented" to "stated" and "no documentation" programs (nothing documented except good credit and a substantial down payment).

Opportunities

- "No doc" programs are perhaps the easiest of all loans to approve because there really is no documentation other than running a credit report on the borrower. Restrictions on these loans have tightened. Today, they are reserved for those with credit scores over 700.

Watch Out!

- "No doc" loans will not only have a down payment requirement, but also will command a higher interest rate. Most have rates about one-half percent higher than a fully documented loan.

- "No doc" loans are not to be used when the income is simply not there. They are not to be used for loan fraud.

- When someone fudges income in order to qualify, the lender might never know about it, unless the file is randomly audited or buyers find they can't afford the payments and go into foreclosure.

The Bottom Line

- If you have reviewed all this material, you now know more than most mortgage loan officers will ever learn. You have found how many ways there are to help buyers and sellers, and build your business through some lending expertise.

- Every chapter won't apply to every agent's experiences. And the chapters don't have to be considered alone. Many of these features and programs can work together in the very same transaction.

- If you looked closely, you may have come up with some ideas of your own. This material is intended not just as a review, but also to spark new ideas in your market. Bring new ideas to your lender, attorney and CPA. You may create a program that will work for a new group of clients.

- Be sure any programs created have all the necessary professional input so that your financing solutions conform to the norms and laws of your market area.