
FINANCIAL FREEDOM
MORTGAGE
workshop



GRFX-3510

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FINANCIAL FREEDOM
MORTGAGE
workshop

TODAY'S TOPICS:

- How the Mortgage Market Works
- Financial Freedom
- Getting Out of Trouble
- Managing Your Mortgage:
 - Shopping for a Loan
 - Creating Wealth

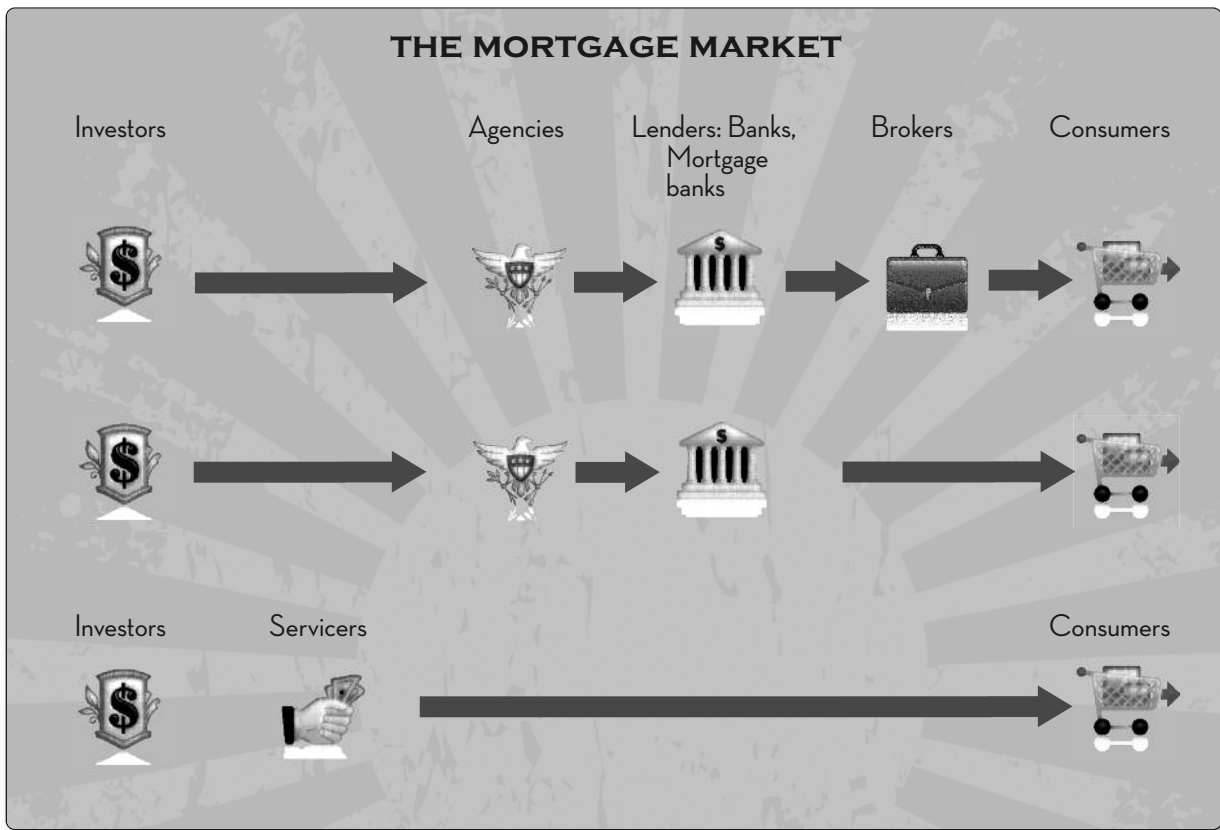


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HOW THE MORTGAGE MARKET WORKS





FINANCIAL FREEDOM

CULTURAL PICTURE OF FINANCIAL PRIORITIES

- 1** **Big House – Great Pool – Nice Cars**

- 2** **Golf Membership – a Boat – Vacation Home**

- 3** **Save for Retirement**

- 4** **Giving Time and Money**


This picture focuses on THINGS.



A BETTER FINANCIAL PICTURE

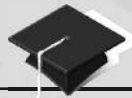
1

Necessities Taken Care of:
Home—Transportation—Expenses



2

People Cared for:
College—Retirement—Parents—Giving



3

Recreation Paid for:
Activities—Vacation



This picture focuses on time spent in RELATIONSHIPS.



MISUSE OF DEBT

1. Creates slavery
2. Creates stress
3. Robs you of time
4. Robs you of peace

HOW IS MORTGAGE DEBT COMMONLY MISUSED?

1. Buying only on payment
2. Refinancing without a plan for the savings
3. Consolidated and re-termed debt
4. Mismatch to interest rate cycles
 - Short term view of home ownership
 - Misunderstanding how to use ARMs
5. Constant desire to move up



HOW CAN I USE DEBT WISELY?

1. Change my view of success
2. Use debt to enable wealth
 - By borrowing
 - By NOT borrowing

What does it take to achieve financial freedom?

1. education
2. planning
3. discipline
4. partnership
5. accountability



GETTING OUT OF TROUBLE

First Steps

- Realize all market motivations are financial
- Understand the current landscape

Getting Out of Trouble:

1. loan modification
2. short sale
3. deed in lieu of foreclosure
4. foreclosure



1. Loan Modification

DEFINITION

A procedure whereby the repayment of a loan is altered due to the hardship of the borrower. This can include the rate, term, and monthly payment amounts. This is handled by the lender's Loss Mitigation Department.

- **Not a refinance**
- **Restructuring of your loan:**
 - Reduced interest rate
 - Revised payment schedule
 - May result in partial forgiveness of debt
- **Designed to keep you in the home**
- **There are no standards**
- **Loan modification depends on:**
 - Value of your home
 - Your financial situation
 - The investor's financial situation
 - Servicer's motivation
- **General requirements**
 - Demonstrated inability to pay debt
 - Demonstrated overall financial hardship



- **The process**

- A financial review of your records
- An analysis of your budget
- Negotiate revised terms

- **Managing the process**

- Know who to talk to
- Be aggressive
- Clearly demonstrate hardship

- **Buyer BEWARE:**

- A temporary industry has been created to help you modify loan terms
- Cost is upwards of \$3,000
- Some providers may:
 - Request that you become delinquent
 - Encourage you to be dishonest about your situation

- **What to look for**

- Low upfront fee
- remaining fee contingent upon success
- Work directly with the provider



2. Short Sale

DEFINITION

The sale of your home generates less than you owe, and your lender forgives the difference.

- **General requirements:**
 - Delinquent or in default
 - Short sale result better than foreclosure
 - Lender might request a note for shortfall
- **Process**
 - Start a dialogue with your lender
 - Clearly demonstrate your inability to pay
 - Hire a trusted realtor to sell your home

3. Deed in Lieu of Foreclosure

DEFINITION:

The transfer of your property to the lender in lieu of the foreclosure process

- A Deed in Lieu is less costly to the lender
- Deeds in Lieu are rare



4. Foreclosure

DEFINITION

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property.

- Foreclosure should be your last resort
- The initiation of the foreclosure process may open the door to loan modification or a short sale
- Foreclosure process
 - Lender files a notice of default (NOD)
 - NOD is recorded with the county
 - 120-day waiting period
 - Trustee's sale – public auction
 - Transfer to lender if not sold
 - Lender evicts borrower
 - Lender liquidates the property





MANAGING YOUR MORTGAGE: SHOPPING FOR A LOAN

The Empowered Shopper

1. Understand and select a PRODUCT
2. Obtain the PRICE
3. Determine the PAYMENT
4. Compare OFFERS

1. UNDERSTAND AND SELECT A PRODUCT

- Fixed rate loans
 - 15, 20, 30 & 40 years
 - Intermediate Adjustable Rate Mortgages
 - Fixed for 2 to 10 years
 - Adjustable thereafter
 - ARMs
 - Interest-only loans
 - Market-driven products
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2. OBTAIN THE PRICE

To understand PRICE you must . . .

- Understand price elements
- Understand price influencers

A. PRICE ELEMENTS

The “1-2-3” System

\$300,000 loan	1	2	3	
RATE	POINTS	LENDER FEES	THIRD-PARTY FEES	TOTAL FEES
6.500%	0.000	\$995	\$1,995	\$2,990

1 Points depend ENTIRELY on the RATE

2 Lender fees are CONSTANT

3 Third-party fees are ESTIMATED



The "1-2-3" System

\$300,000 loan		1	2	3
RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES
5.875%	2.375	\$7,125	\$995	\$1,995
5.990%	1.750	\$5,250	\$995	\$1,995
6.125%	1.000	\$3,000	\$995	\$1,995
6.250%	0.875	\$2,625	\$995	\$1,995
6.375%	0.500	\$1,500	\$995	\$1,995
6.500%	0.000	\$0	\$995	\$1,995
6.625%	(0.250)	(\$750)	\$995	\$1,995
6.750%	(0.625)	(\$1,875)	\$995	\$1,995
6.875%	(0.875)	(\$2,625)	\$995	\$1,995
7.000%	(1.250)	(\$3,750)	\$995	\$1,995



The “1-2-3” System*

\$300,000 loan	1	2	3		
RATE	POINTS	LENDER FEES	THIRD-PARTY FEES	REBATE	TOTAL COST
5.875%	2.375	\$995	\$1,995	\$0	\$10,115
5.990%	1.750	\$995	\$1,995	\$0	\$8,240
6.125%	1.000	\$995	\$1,995	\$0	\$5,990
6.250%	0.875	\$995	\$1,995	\$0	\$5,615
6.375%	0.500	\$995	\$1,995	\$0	\$4,990
6.500%	0.000	\$995	\$1,995	\$0	\$2,990
6.625%	(0.250)	\$995	\$1,995	(\$750)	\$2,240
6.750%	(0.625)	\$995	\$1,995	(\$1,875)	\$1,115
6.875%	(0.875)	\$995	\$1,995	(\$2,625)	\$365
7.000%	(1.250)	\$995	\$1,995	(\$3,750)	(\$760)

*The figures included in the 1-2-3 System tables are intended as an example of the information you should collect when shopping for a loan. The figures are not intended to infer actual pricing for a mortgage in today's market. The information should therefore not be used for purposes of comparing quotes in the open marketplace.



B. PRICE INFLUENCERS

ATTRIBUTE	HIGHER PRICE	LOWER PRICE	COMMENTS
Credit	Low	High	
Debt-to-Income Ratio	High	Low	
Loan to value	High	Low	
Term (duration)	Longer	Shorter	Be careful with ARMs
Documentation	Limited	Full	
Prepayment penalty included?	No	Yes	Not worth the lower price
Impounds (escrows) included?	No	Yes	Get the discount (if available)
Rate lock terms (duration)	Longer	Shorter	

*If the RATE sounds too good to be TRUE . . .
It most likely IS!*



3. DETERMINE THE PAYMENT

\$300,000 loan		1	2	3		
RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES	TOTAL \$ COSTS	PAYMENT
5.875%	2.375	\$7,125	\$995	\$1,995	\$10,115	\$1,766
5.990%	1.750	\$5,250	\$995	\$1,995	\$8,240	\$1,788
6.125%	1.000	\$3,000	\$995	\$1,995	\$5,990	\$1,814
6.250%	0.875	\$2,625	\$995	\$1,995	\$5,615	\$1,838
6.375%	0.500	\$1,500	\$995	\$1,995	\$4,490	\$1,862
6.500%	0.000	\$0	\$995	\$1,995	\$2,990	\$1,886
6.625%	(0.250)	(\$750)	\$995	\$1,995	\$2,240	\$1,910
6.750%	(0.625)	(\$1,875)	\$995	\$1,995	\$1,115	\$1,935
6.875%	(0.875)	(\$2,625)	\$995	\$1,995	\$365	\$1,960
7.000%	(1.250)	(\$3,750)	\$995	\$1,995	(\$760)	\$1,984

\$218



4. COMPARE OFFERS

- Request the offer based on assumptions:
 - Credit score
 - Income
 - Loan to value
- Use the “1-2-3” system
- Get at least two quotes
 - SAME day
 - SAME loan program and terms
 - SAME rate lock terms
- Make sure your offers are backed by a Good Faith Estimate (“GFE”)



COMPARE OFFERS (CONTINUED)

\$300,000 loan		1	2	3	
RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES	TOTAL \$ COSTS
5.875%	2.375	\$7,125	\$995	\$1,995	\$10,115
5.990%	1.750	\$5,250	\$995	\$1,995	\$8,240
6.125%	1.000	\$3,000	\$995	\$1,995	\$5,990
6.250%	0.875	\$2,625	\$995	\$1,995	\$5,615
6.375%	0.500	\$1,500	\$995	\$1,995	\$4,490
6.500%	0.000	\$0	\$995	\$1,995	\$2,990
6.625%	(0.250)	(\$750)	\$995	\$1,995	\$2,240
6.750%	(0.625)	(\$1,875)	\$995	\$1,995	\$1,115
6.875%	(0.875)	(\$2,625)	\$995	\$1,995	\$365
7.000%	(1.250)	(\$3,750)	\$995	\$1,995	(\$760)

The
"Zero Point"
Quote



\$300,000 loan		1	2	3	
RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES	TOTAL FEES
6.500%	0.000	\$0	\$995	\$1,995	\$2,990
6.500%	0.000	\$0	\$1,249	\$1,899	\$3,148
6.500%	0.000	\$750	\$0	\$1,849	\$2,599

Line up quotes at the SAME rate

\$300,000 loan		1	2	3	
RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES	TOTAL FEES
6.500%	0.000	\$0	\$995	\$1,995	\$2,990
6.500%	0.000	\$0	\$1,249	\$1,899	\$3,148
6.500%	0.000	\$750	\$0	\$1,849	\$2,599

RULE:
The best deal is lowest cost for the SAME rate.





Be Aware of Advertising Schemes

RATE SHEET PRICING EXAMPLE

\$300,000 loan					
RATE	POINTS	LENDER FEES	THIRD-PARTY FEES	REBATE	TOTAL FEES
5.875%	2.375	\$995	\$1,995	\$0	\$2,990
5.990%	1.750	\$995	\$1,995	\$0	\$2,990
6.125%	1.000	\$995	\$1,995	\$0	\$2,990
6.250%	0.875	\$995	\$1,995	\$0	\$2,990
6.375%	0.500	\$995	\$1,995	\$0	\$2,990
6.500%	0.000	\$995	\$1,995	\$0	\$2,990
6.625%	(0.250)	\$995	\$1,995	(\$750)	\$2,240
6.750%	(0.625)	\$995	\$1,995	(\$1,875)	\$1,115
6.875%	(0.875)	\$995	\$1,995	(\$2,625)	\$365
7.000%	(1.250)	\$995	\$1,995	(\$3,750)	(\$760)

Annotations:

- Only \$995 Total Fees (points to \$995 in Lender Fees)
- Lowest Rate (points to 5.875%)
- No Points (points to 0.000 in Points)
- Flat Fee Refi (points to \$365 in Total Fees)
- No Cost Loan (points to (\$760) in Total Fees)

COMMON TACTICS

- Surprisingly low rates/payments
- "I'll pay for your appraisal"
- "The loan will cost you nothing"
- "We don't charge lender fees"
- "We don't collect a deposit"
- "You get to skip a payment"
- "We can't control those costs, so ignore them"
- "I'll give you a deal if you refer someone"





MANAGING YOUR MORTGAGE: CREATING WEALTH

Using Your Mortgage to Create Wealth

1. Understand why you own a home
2. Develop a sound refinance strategy

1. UNDERSTANDING WHY YOU OWN A HOME

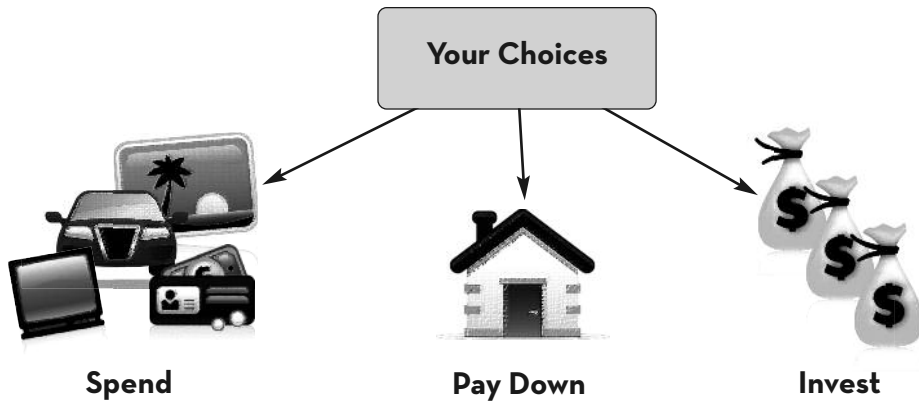
- a. Curbs inflation
- b. Provides appreciation



2. DEPLOY A SOUND REFINANCE STRATEGY

- Take a long term view
- Use simple loan products
- Monitor and take advantage of interest rates cycles
- Consolidate to reduce the cost of debt
- Use the savings to pay down or invest

Old Payment	=	\$2,800
New Payment	=	\$2,100
SAVINGS		\$700



Wealth and freedom depend upon the choices you make.



You Must Get This!

*If I have debt,
I am borrowing to enable
my spending.*

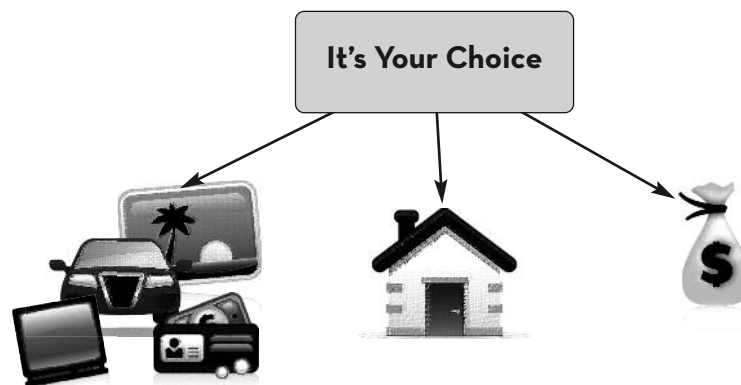


Refinance Strategy Example

\$350,000, 30-year loan				
MONTH	NEW RATE	OLD PAYMENT	NEW PAYMENT	"SAVINGS"
1	7.500%	\$2,477		
60	5.000%	\$2,477	\$1,779	\$698

Spend, pay down, or invest at 8%?

Which Do You Prefer?



	REFINANCE AND SPEND	REFINANCE AND PAY DOWN	REFINANCE AND INVEST @ 8%
Interest paid	\$435,000	\$283,000	\$435,000
Investments			\$1,000,000
Years to pay	35	21	35



Summary of Mortgage Wealth Management

1. YOU OWN A HOME TO FIGHT INFLATION AND ENJOY APPRECIATION

2. DEPLOY A SOUND REFINANCE STRATEGY

- Simple loan products
- Monitor and take advantage of interest rate cycles
- Refinance at the right time
- Use the right product
- Establish priorities for the savings:
 - Necessities
 - Investing
 - Paying down debt
 - Discretionary spending
- Stick to the plan!





RESOURCES

Financial Resources at Saddleback Church

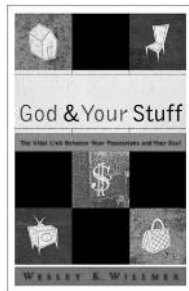
FINANCIAL COACHING MINISTRY

Individual help and counsel offered by trained financial coaches at no cost. Contact: Staci at (949) 609-8205 or StaciA@saddleback.net.

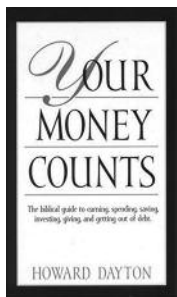


Managing Our Finances God's Way: Small Group Study Guide and Workbook

This 7-week, video-based study will inspire you to manage your finances so that you can become financially free and live out your life purpose. Includes CD with helpful tools. Available for purchase at the Pavilion on weekends or in the Resource Room on weekdays.



God and Your Stuff, Wes Willmer (Navpress)



Your Money Counts, Howard Dayton (Tyndale)



RESOURCES, CONTINUED ...



FannieMae

www.fanniemae.com



HOPENOW

www.hopenow.com



ANSWER KEY

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What does it take to achieve financial freedom?

1. **education**
2. **planning**
3. **discipline**
4. **partnership**
5. **accountability**

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Getting Out of Trouble

1. **loan modification**
2. **short sale**
3. **deed in lieu of foreclosure**
4. **foreclosure**

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To understand price you must . . .

- A. Understand price **elements**
- B. Understand price **influencers**

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Using Your Mortgage to Create Wealth

1. **Understand why you own a home**
2. **Deploy a sound refinance strategy**

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Understanding why you own a home

- A. **Curbs inflation**
- B. **Provides appreciation**





GLOSSARY OF TERMS

“A” paper: A mortgage loan where the asset and borrower meet certain set payment criteria and standards, such as credit score and debt-to-income ratio. Typically, these are loans that conform to FNMA and FHLMC standards.

Adjustable Rate Mortgage (ARM): A loan in which the interest rate will change periodically over the course of the loan, but the initial interest rate is lower than that of a traditional fixed-rate loan.

Agencies: Government-sponsored mortgage enterprises that guarantee the credit quality of mortgages in order to make them easier for loan originators to package and sell to investors.

Broker: A person who acts as an agent or intermediary in negotiating a loan between a lender and a borrower.

Credit market: A financial market where participants buy and sell debt securities.

Credit score: This term is often used to refer to credit bureau risk scores. It broadly refers to a number generated by a statistical model which is used to objectively evaluate information that pertains to making a credit decision.

Credit standards: An individual lender’s guidelines used to determine whether a borrower is creditworthy.

Deed in Lieu of Foreclosure: A deed instrument in which a borrower conveys all interest in the real estate in question to the lender to satisfy the loan in default and avoid foreclosure proceedings.

Federal National Mortgage Association (FNMA or Fannie Mae): A government-sponsored enterprise authorized to make loans and loan guarantees.

Federal Reserve (The Fed): The central banking system of the United States consisting of a Board of Directors, twelve regional banks, a Federal Open Market Committee, numerous private bank members, and an advisory council.



Fixed rate loan: A loan in which the interest rate does not change during the entire term of the loan.

Foreclosure: The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property.

Good Faith Estimate (GFE): An itemized list of estimated fees and costs associated with a loan that must be provided within three days of applying for a loan.

Impound account (escrow account): An account set up, typically through a mortgage company, for a borrower to set aside money to pay property taxes and insurance.

Interest only loan: A loan in which, for a set term of usually five to ten years, the borrower pays only the interest on the principal balance.

Intermediate adjustable rate mortgage: An adjustable rate mortgage that has a fixed period at the beginning of the loan and then adjusts annually or bi-annually after that.

Lender fees: Fees that offset the sum cost of producing a loan. Lender fees typically include appraisal fees, credit report fees, underwriting fees, application fees, broker fees, and inspection fees, among others.

Liquidation: The process of converting an asset into cash.

Loan modification: A procedure whereby the repayment of a loan is altered due to the hardship of the borrower. This can include the rate, term, and monthly payment amounts.

Loan to value ratio (LTV): A lending risk assessment ratio whereby the amount of the mortgage is divided by the value of the property.

Rate lock terms: Securing in writing a specific interest rate for a loan for a set term.

Loss mitigation department: The department in a servicer's facility that works on behalf of the investor to minimize losses on loans in default.

Notice of Default (NOD): Notice to a borrower that they are delinquent in their loan payments and if the money owed is not paid within a certain time foreclosure proceedings will be initiated. Also, the initial document filed in court by a lender to start the foreclosure process.



Points: Certain charges paid upfront to obtain a home mortgage at a lower interest rate.

Private Mortgage Insurance (PMI): A policy provided by private mortgage insurers to protect lenders against loss if a borrower defaults.

Rebate: Negative points that are due to a borrower that takes a mortgage at a premium rate. These can help offset closing costs.

Servicers: A person or entity responsible for collecting a borrower's monthly loan payment and crediting their account.

Short sale: The term whereby the sale of your home generates less than you owe and the lender forgives the difference.

Start rate: The initial rate on an adjustable rate mortgage, usually for the duration of the first year.

Subprime: A term that refers to either a mortgage or lender and is associated with a borrower who does not qualify for a prime rate loan.

Third party: An intermediary who negotiates loan terms between a lender and a borrower (see Broker).

Third-party fees: Fees paid to a third party for services requested by the lender on behalf of the borrower.

Trustee's sale: A foreclosure sale or public auction whereby the proceeds from the sale are used to pay off a borrower's debt.



1+2+3 = Quote Comparison

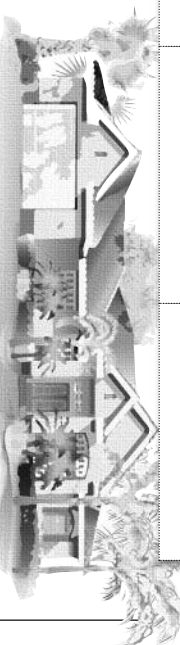
Loan Amount \$ _____

Loan Term _____ yrs.

Loan Program _____
(fixed/adjustable)

$$1 + 2 + 3 = \boxed{}$$

LENDER	RATE	POINTS	POINTS \$	LENDER FEES	THIRD-PARTY FEES	TOTAL \$ COSTS



1+2+3 = Quote Sheet

Loan Amount \$ _____

Loan Term _____ yrs.

Loan Program _____
(fixed/adjustable)

$$1 + 2 + 3 = \boxed{}$$

RATE	POINTS	POINTS\$	LENDER FEES	THIRD-PARTY FEES	TOTAL \$ COSTS	PAYMENT

