



The Lighthouse

Bringing *Light* to the Mortgage Industry

PMI - the good, bad, and ugly!

130 Mabry Hood Road
Suite 104
Knoxville, TN 37922
888-223-3970 ofc
www.fixedfeemortgage.com

Mortgage IQ

Fannie Mae and Freddie Mac own what percentage of the mortgages in the U.S.?

- A. 23% B. 42%
C. 54% D. 61%

Answer: 42%

However, there are 5 other mortgage bankers gaining market share in mortgage ownership.

Private Mortgage Insurance (PMI) was created to allow homebuyers to put less money down when purchasing a home. The mortgage banking industry "sold" Congress on the idea that it would reduce their risk of having to bailout loans that foreclose by allowing lenders to charge the borrower an insurance premium to cover this risk. Is it worth it? Absolutely NOT! How do you stay out of PMI? Surprisingly, most consumers believe the only way to eliminate PMI is to pay a 20% down payment but this incorrect! PMI is based on the first mortgage only and when the first mortgage exceeds 80% of the purchase price, PMI is applied. You can avoid PMI by taking a first mortgage equal to 80% of the purchase price and a second mortgage to cover the remaining balance due. Although typical second mortgages carry a 1-3% higher interest rate than the first mortgage, this option still provides a much better return on investment if you plan on staying in the mortgage longer than three years. This is affirmed by looking at total loan costs compared to the principal balance remaining into the future. And for greater affirmation, your total payments with two mortgages are similar to that of one payment with PMI. If you don't have a 20% down payment or **find this money would earn a better return elsewhere**, make use of a second mortgage and increase your return on investment! The best term option for second mortgages is currently a fifteen-year, fully amortized, fixed rate mortgage. HELOC's and a fifteen-year balloon amortized over 30 years are also readily available. Feel free to contact Fixed Fee Mortgage for more answers regarding PMI and how to calculate your return on investment.

Credit Scores — Part I

Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the United States are produced from software developed by Fair, Isaac and Company (FICO). FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion. Credit scoring is calculated by a mathematical equation that evaluates many types of info in a consumer's credit file at that specific repository/bureau. By comparing this info to the patterns in hundreds of thousands of past credit reports, the score identifies the lender's level of future credit risk. In order for a credit score to be calculated, the consumer's file must contain at least one account which has been open for six months or longer. In addition, the file must contain at least one account that has been updated in the past six months. Listed below are the five main categories of information that credit scores evaluate, along with their approximate level of importance:

- | | |
|-----------------------------|---------------------------|
| 1. Payment history | 35% of the score's weight |
| 2. Amounts owed | 30% of the score's weight |
| 3. Length of credit history | 15% of the score's weight |
| 4. New credit inquiries | 10% of the score's weight |
| 5. Types of credit used | 10% of the score's weight |



Hmmmmmm

Several months ago, Freddie Mac's company executives were suddenly terminated due to overstating the company's profits by 5 billion dollars. Three weeks ago, it was discovered that Fannie Mae has also been overstating the company's profits. If either company were to go bankrupt, the country would not be able to sustain the debt that secures 42% of this countries homes. Many experts believe Wall Street would be closed overnight along with the financial industry due to such debt. This is one of the reasons Alan Greenspan and the Federal Reserve have strongly encouraged Congress throughout this year to privatize Fannie and Freddie to reduce risk to taxpayers. Congress has not responded.



A Light On A Hill

I've learned-
that no matter how much I care, some people just don't care back.

I've learned-
that it takes years to build up trust, and only seconds to destroy it.

I've learned-
that it's not what you have in your life but who you have in your life that counts.

I've learned-
that heroes are the people who do what has to be done, when it needs to be done, regardless of the consequences.