

Contact Information

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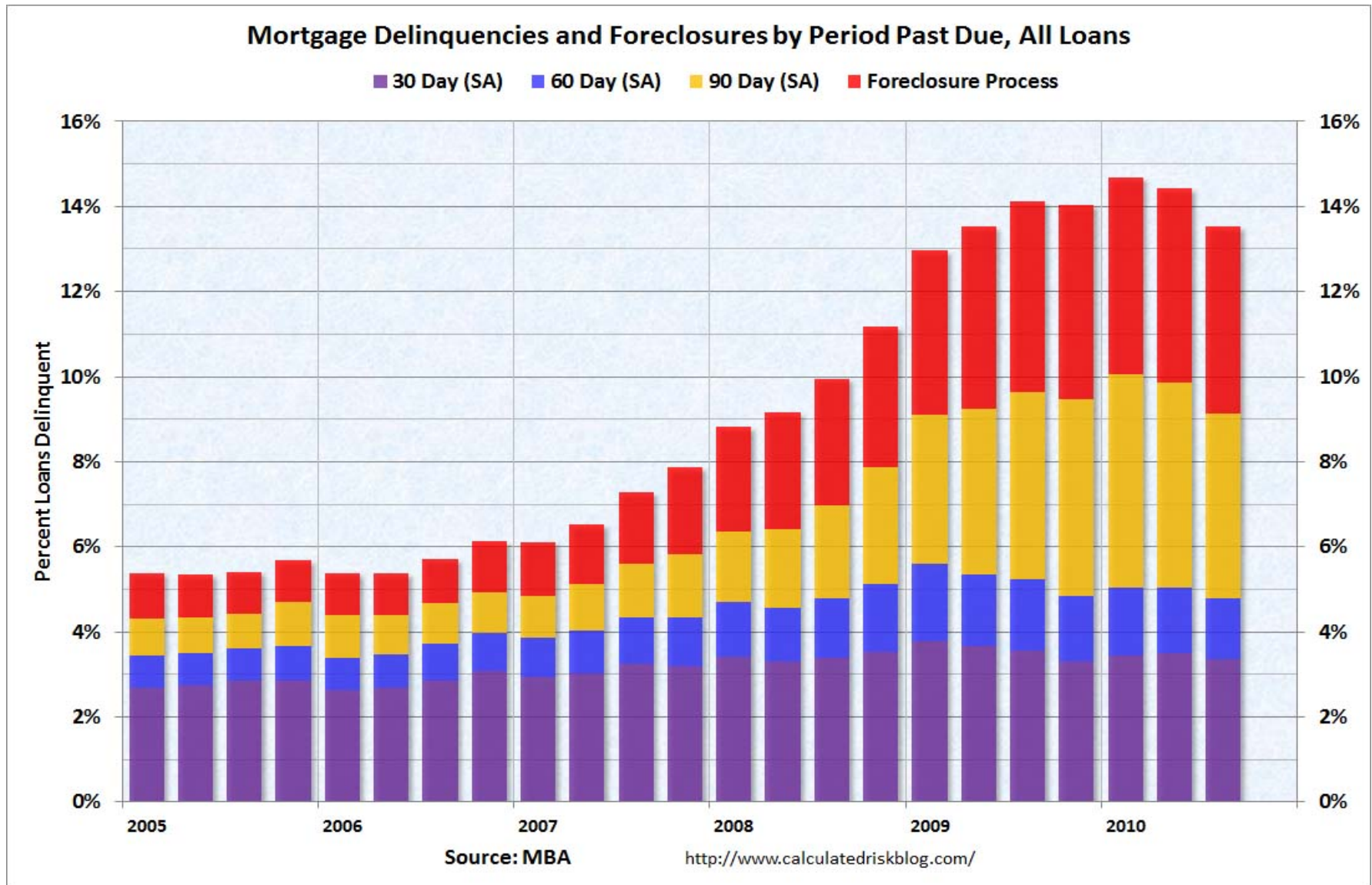
Challenges and Opportunities in Residential Real Estate

A “Before and After” Look at
Residential Lending Standards

Challenges...

Over the past few years, lending standards have become much more rigorous, especially as **banks are being pressured by Fannie/Freddie to buy back loans** in default. These buyback requests are being initiated by Fannie/Freddie as a failed home loan's file is reviewed. The agencies are reviewing old appraisals and credit documents in these files, with a critical eye. **If the documentation is found to be faulty, the buyback is forced on the lender.**

Mortgage Delinquencies and Foreclosures 2005-2010

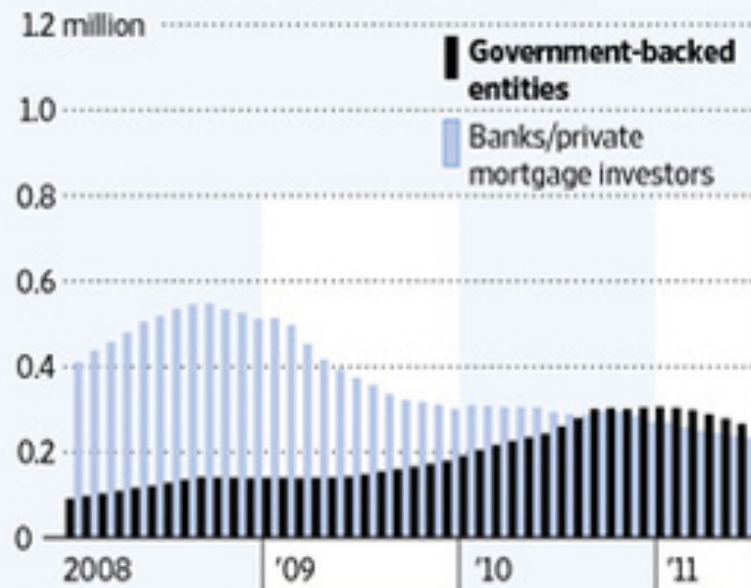


GSE Real Estate Owned Portfolio

Public Property | The U.S. real-estate portfolio expands

Federal entities now own as many repossessed properties as private lenders...

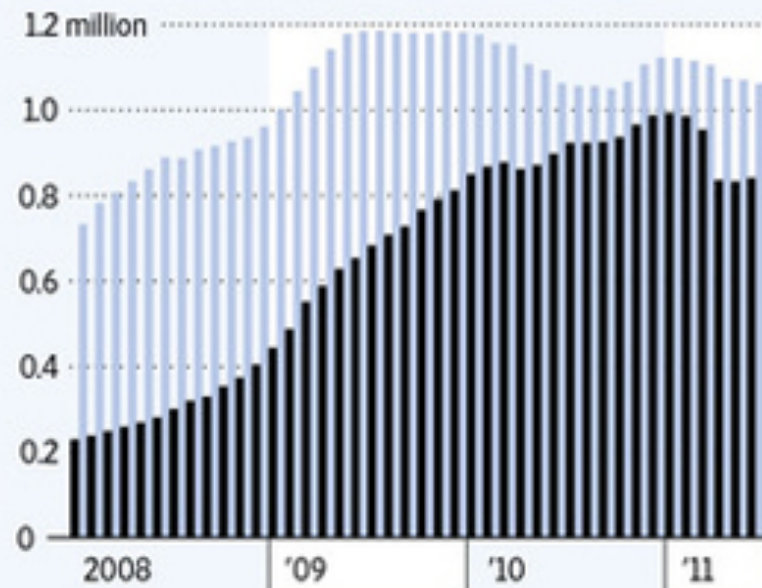
MONTHLY STOCK OF FORECLOSED PROPERTIES



Source: Barclays Capital

...and have a growing share of potential additional housing supply.

VOLUME OF LOANS IN THE FORECLOSURE PROCESS



What Has Really Changed? - Residential Mortgages

- **In 2005:**
- **The majority of loans were processed as “Stated Income, Stated Asset”, or had some form of documentation waivers for credit scores as low as 660.**
- **100% Financing was available in many forms.**
- **Many more outlets for Residential financing as Wall Street, Private lenders and Banks tried to Capitalize on the housing boom.**
- **No pricing or rate adjustments based on credit score for conforming loan products.**

What Has Really Changed?

- **In 2011:**
- **ALL purchase transactions require full documentation. with the exception of HARP refinances.**
- **Higher down payment requirements (VA and RD Loans still allow for 100% financing)**
- **Fewer options available for residential mortgage lending and an increased reliance on GSEs, FHA and VA to meet financing needs.**
- **Interest rate/pricing adjustments for credit scores below 740. *(On a \$200,000 loan at 80% LTV it would cost an additional \$4500 at closing or a .75% higher interest rate for a client with a 660 score vs. a client with a 740 score)***

What Has Really Changed?

- **Changes to Asset Documentation**
- **In 2011:**
- **ALL transactions require full Asset documentation.**
- **60 days of account statements are analyzed**
- **Any large non-payroll deposits require a letter of explanation and supporting documentation.**

What Has Really Changed?

- **Changes to Appraisal Process**
- **In 2005:**
- **Lenders could pick from their own list of appraisers**
- **Lenders and loan officers could “direct” appraisals to their favorite appraisers**
- **Lenders and loan officers were in contact with appraisers, before and after appraisal was completed.**
- **Most lenders accepted appraised values that appraisers came up with.**

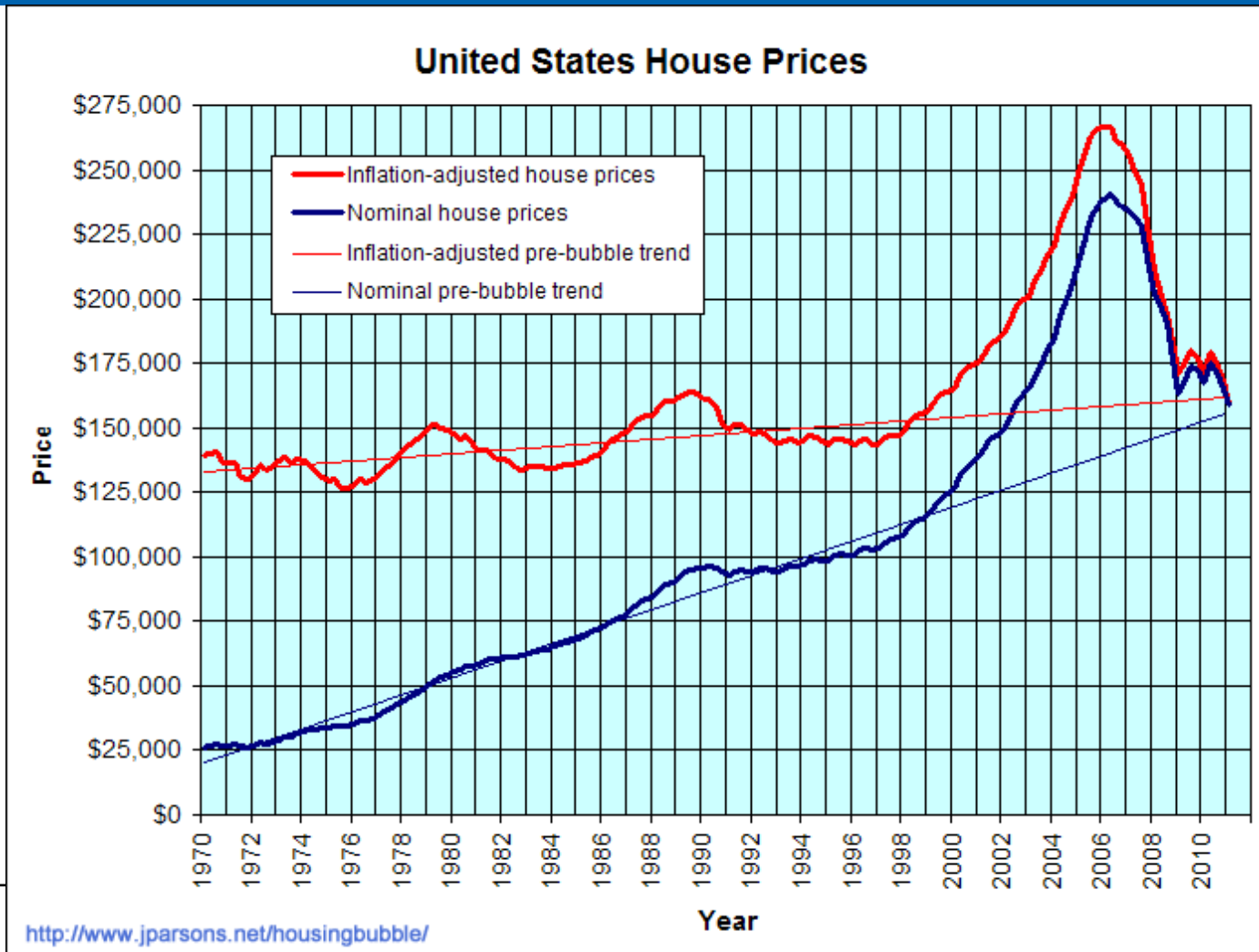
What Has Really Changed?

- **Changes to Appraisal Process**
- **In 2011:**
- **All lenders are required to use an appraisal management firm (AMC) to act as the “buffer” between the appraiser and the lender.**
- **Lenders are not permitted ANY contact with individual appraisers. All communication must go through management company.**
- **Lenders’ and Agency Guidelines have tightened up substantially on many aspects of appraisals. This tightening includes:**
- **Comps used (location, distance, sale date, similarities to subject)**
- **Condition of property. Very detailed inspections and photos of any noted deficiencies are standard.**
- **Appraisals are checked against Core Logic and/or an AVM. If an appraisal is a “fail” or has a warning, additional steps will be requested, including field review and possible second appraisal or rejection of the collateral.**

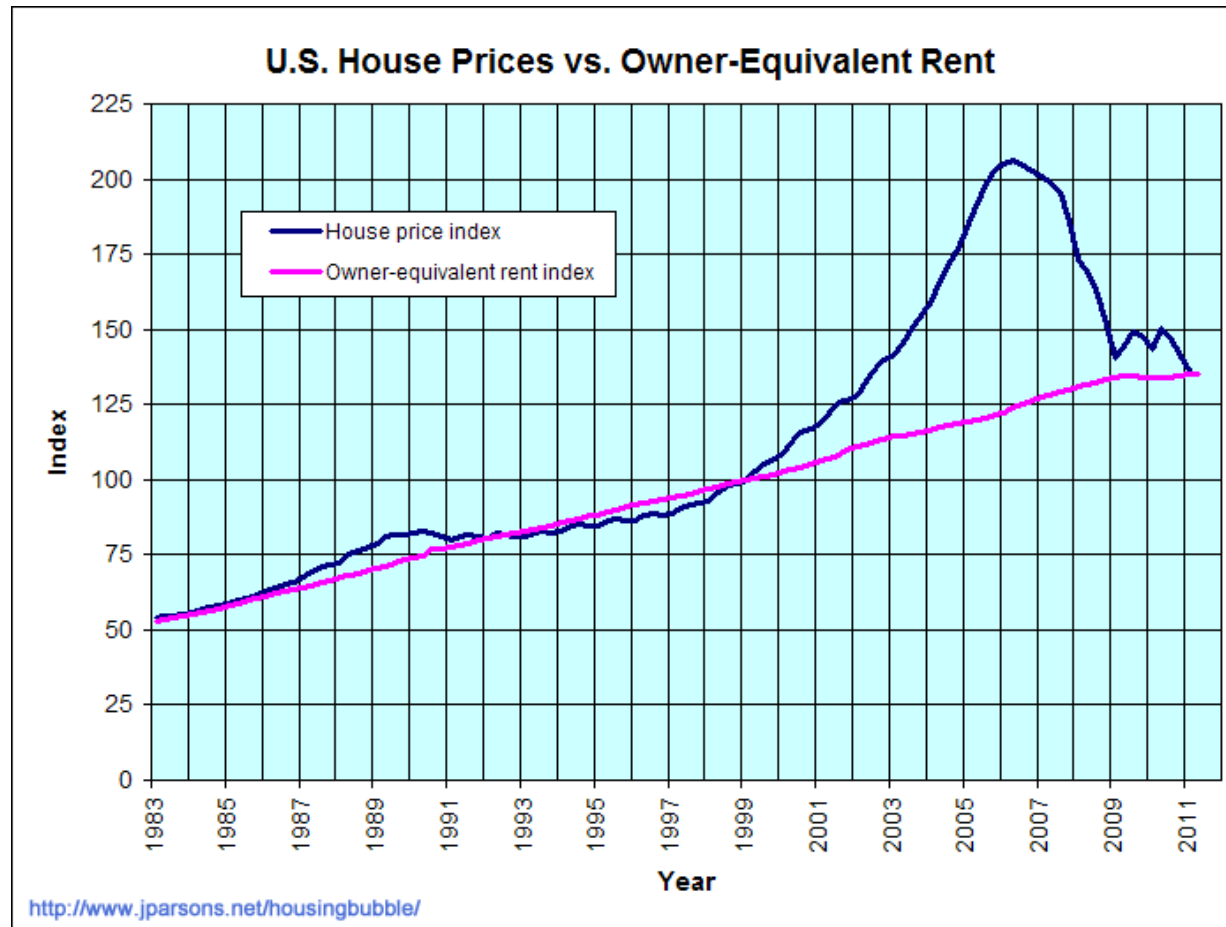
Opportunities in Residential Markets

- **Current Housing Affordability**
- **Current Housing Inventory**
- **Current Interest Rate Environment**

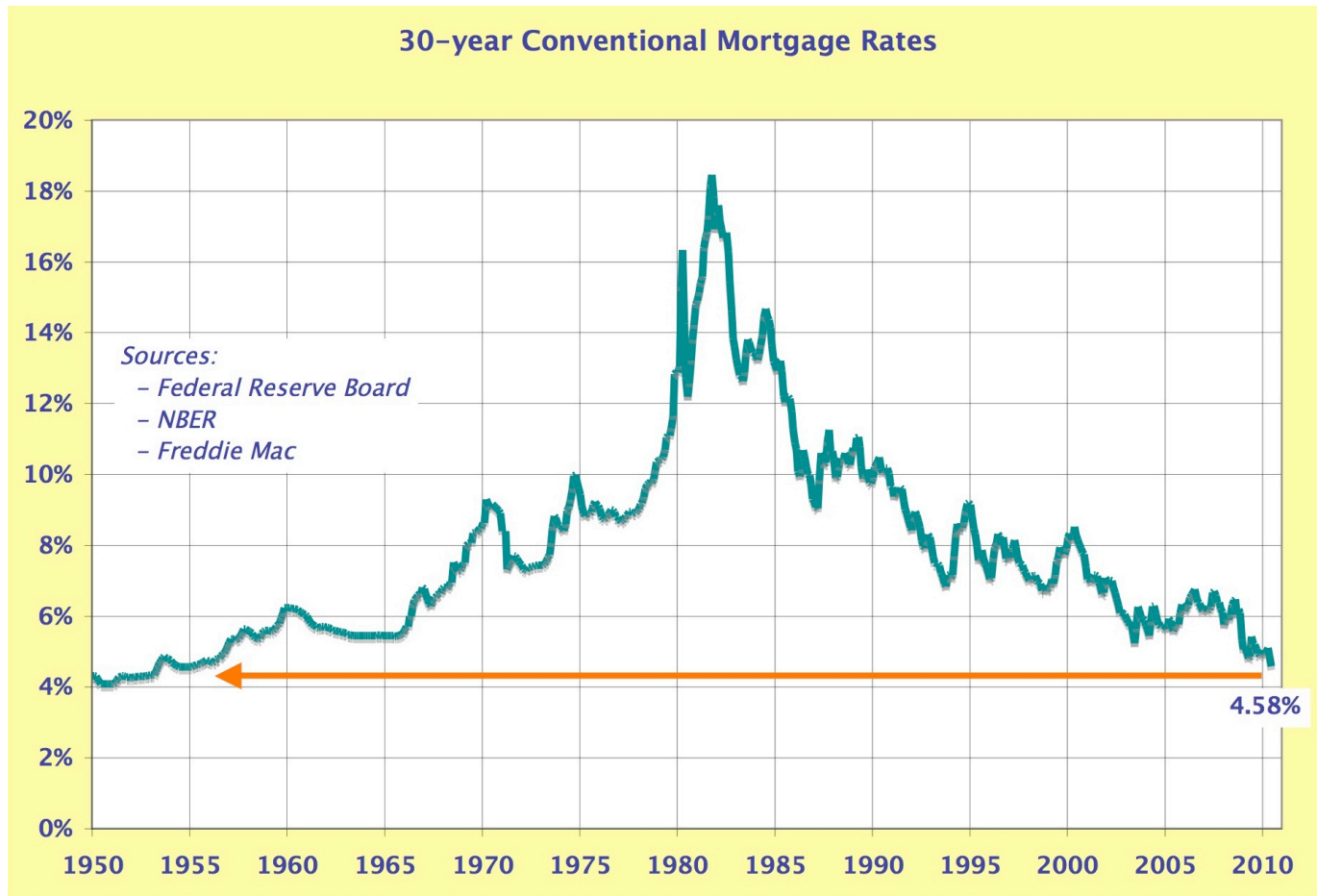
U.S. Home Price Trends



U.S. Home Price vs. Owner Equivalent Rent



Historical Interest Rate Trends



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