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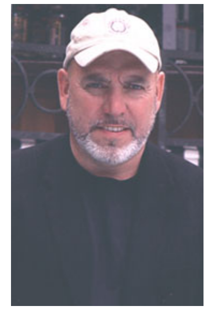

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How to Reel in the Affluent: Super Jumbo Lending

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Over the past few years, the luxury market has expanded both geographically and demographically. Twenty years ago, there was a different ethic in borrowing, millionaires were less likely to borrow on their primary residences than they are today. A majority of the affluent paid cash for their homes. Today, superstar athletes and young executives are entering the ranks of the affluent much quicker then ever before and are requesting super jumbo mortgage services early on in their careers. In the professional arena, the rookie athlete or the second year player has a limited amount of income during the early years of their careers- exactly the time when these young millionaires need a Mortgage Broker- before they begin making $9 million to $12 million a year.

Wall Street and the economy have minted new millionaires at a rapid pace, and none of these millionaires are afraid to borrow to attain the lifestyle they desire now rather then later. I would say that this is the most significant difference with the buying habits of the millionaires in 2001 compared to their counterparts 15 to 20 years ago. Today's millionaire seeks immediate gratification and welcomes the use of leverage to facilitate that gratification in the form of luxury real estate. This creates more opportunities for you, the broker, to include super jumbo loans in your conforming and conventional product mix.

While successful brokers are making good money within a particular niche, they would be wise to welcome the super jumbo borrower and large loans. You do not need to avoid this business because of not knowing what to do or what is needed to execute the request. Granted, it requires more expertise in the how to's of dealing with the conditions of the affluent borrower and the high priced collateral property. However, the extra effort with developing this expertise, along with new ways of marketing the business, will result in substantial financial rewards. Although you are not going to do a large volume of super jumbo loans in any given month, you can always call on an expert in super jumbo lending who will show you how to help make your commission.

Super jumbo loans are an ideal way to enhance the revenue side of the mortgage brokerage business. If you can do two, three, four or even five super jumbo loans annually, whether it be a purchase transaction or a refinance, it is going to result in revenue that falls right to your bottom line.

GEOGRAPHIC EXPANSION OF AFFLUENT COMMUNITIES

Geographically, affluent communities are springing up across the country, where traditionally, none have appeared in the past. Second-tier cities are attracting the affluent, and are creating a much broader base of high-end homes and more business for the Mortgage Broker. Twenty years ago, Orlando was a vacation destination rather then a large business center. It is not uncommon today to find primary homes in Orlando emerging in the $3 million to $5 million range. This was not the case 20 years ago where homes in this price range were only found in and around metropolitan cities such as New York, San Francisco, Los Angeles, Dallas, Chicago, and Boston. Second homes are proliferating in both warm and cold weather climates in the $3 million to $6 million price range.

ISSUES IN DEALING WITH THE LARGER LOAN

When working with super jumbo loans, you will inevitably have to deal with different types of evaluations. Included in these evaluations are the following:

Difficulty in comparing luxury residential properties:

- The comps often exceed 10 percent.
- The mileage between comps often exceeds the industry standard of one mile.
- Luxury residential properties do not sell as frequently as do other properties (therefore, marketing time often exceeds six months) and they tend to be outside of the dominant value range for properties in their neighborhood.

The financial profile of the borrower:

- The financial profile of today's millionaire is more complicated and convoluted than that of the conventional borrower.
- Affluent borrowers traditionally derive their income from several sources. Income may be sheltered or not easily traceable.
- Credit issues, resulting from complications of a business nature, can appear on the borrower's credit reports.

TRANSLATING ONE GOOD LOAN INTO ADDITIONAL BUSINESS

Affluent borrowers, or their business agents or representatives, are often opinion leaders in their personal and/or business communities. Their referrals for additional business and revenue often conform to the core business of the brokerage shop. When the CEO of a company or the head of a particular affinity group is pleased with your brokerage services for the luxury home he or she owns, they will often allow you to solicit their affiliations , members of employees. In that regard, you can get many referrals over long periods of time from having properly serviced such an opinion leader. The high net-worth borrower and his professional alliances usually deal with other opinion leaders or high net-worth individuals whom you will be able to market to in the future. Delivering good service and products to high net-worth individuals will also open doors for you to network with real estate agents of high-end properties as well. The best way to be introduced to luxury real estate agents is at a closing table where you, the broker, provided the mortgage services on the transaction.

SUCCESSFUL MARKETING TO THE AFFLUENT BORROWER

Marketing to the affluent borrower is different then marketing loans below $1 million, and the underwriting, as expected, is much more thorough. When improperly underwritten, these loans carry a large risk for both the lender and the broker under repurchase agreements.

Lenders who have entered the luxury market in an imprudent fashion have incurred tremendous losses and delinquencies. Many of the investors who go into the super jumbo market, only to exit quickly, do so because they often treat the underwriting process similar to the conforming loan process. Conventional, conforming lenders have historically come into this high-end market for only 12 to 30 months, and then exit when they begin to experience large losses. For example, an 80 percent LTV is adequate collateral coverage. It may be a wonderful LTV when the exposure is connected to a home priced between $300,000 and $400,000. However, an 80 percent LTV is very high for loans above $1 million. Starting a foreclosure procedure with a borrower with an 80 percent LTV, who is often professionally protected via his accountants and attorneys, is likely to drag on and accrue costs beyond collateral value. Lenders should never want to be in that position with a super jumbo borrower. In super jumbo lending, the collateral is the booby prize.

The luxury home is often difficult to acquire via foreclosure, and it takes a long time to sell and market the property as REO (real-estate owned). The real prize for your lender should be loan performance and the ability to put a great deal of money to work at an above-mark yield, and have it perform with delinquency rates comparable to A paper conforming portfolios.

It is important for the broker to recognize that a good super jumbo lender will treat the business of underwriting, both the income and collateral aspects of the file, differently than the underwriting of a conforming loan. While collateral is important to the landing equation, it is not nearly as important as the credit underwriting and income analysis. Part of developing an expertise for the super jumbo loan market comes from looking at the borrower's career and the sector of the industry influencing the income.

With the millionaire, the payment or debt repayment history is not as important as the likelihood of continued success in the borrower's chosen profession. If you are going to originate these large loans, then getting them bought in a very thin secondary market is a skill that you, as the broker, must develop.

A perfect example of how a super jumbo underwriter must look towards the likelihood of continued success of the borrower's chosen industry is apparent from the delinquencies experienced during the savings and loan crisis of the late 1980s, through the overnight closure of many banks by the Resolution Trust Corporation (RTC). The building sector, home builders, developers and commercial developers went into a depression for three years, and liquidity to the industry was cut off overnight. They lacked the mechanism to finance and complete projects. People with triple A credit histories became sub-prime creditors in a matter of months because of the instant transformation of their industry and the drying up of available credit and financing (very similar to the dot.com executives of recent history). People suddenly had problems paying bills and operating their businesses, whereas before, there were no problems.

LOOK TO THE ECONOMIC CONDITIONS

As noted, certain types of industries, from time to time during certain economic conditions, are in need of service. Currently, Wall Street firms are laying off people or already announced that there will be a reduction of year-end bonuses or no annual bonuses at all. Those people affected by layoffs or bonus cuts, as well as individual investors who have seen hundreds of thousands of dollars evaporate from their holding, are all potential super jumbo refi candidates.

Doctors are traditionally a good sector for super jumbo loans. They usually have substantial incomes in both good and bad economic times, and often, have very little or no time to handle their own personal affairs. Business bankruptcy attorneys, or workout attorneys specializing in loan workouts, are another good source. Many high net-worth individuals were recently hit with margin calls and have to make good on them, leaving them tight on cash to pay taxes.

Construction financing is another excellent area to service. Many luxury homes under construction need end loans. Executives in the technology sector began building their large dream homes only to find their stock accounts severely depleted as a result of market deflation. They need some creative financing at this point.

WHERE TO FIND YOUR MILLIONAIRE CLIENTS

1. **Surface in circles and groups where the affluent congregate**
   - Charity functions; certain types of sporting events, including professional golf and tennis tournaments; social events, country clubs and polo matches
   - Luxury automobile, yacht and private airplane dealerships
   - Professional services, such as law and accounting firms
   - Seminars and trade shows. Attending a trade show, in connection with large heavy equipment, for example, is the perfect venue to meet large contractors in need of financing for current or future projects.

2. **Read and review announcements in the press, print and Internet for high net-worth individuals who may be in some form of transition**
   - The sale of business
   - The sale of a home usually means purchasing another home
   - Retirement announcements: Selling the family home to relocate to a different geographic location, while attempting to keep the same luxury amenities.
   - Obituaries: The estate will oftentimes need some financing and a large home may be involved

- Bankruptcy filings, lien filings: Government lien filings are very important. The affluent borrower will often have problems with taxing authorities and require immediate cash, and, as a result, will use their estate homes.
- Divorce proceedings: Divorce translates into the splitting up of matrimonial assets, which, in turn, creates a need and opportunity for financing.
- Professional athletes: Read the sports section of your newspaper and network with the athlete's business agents early on. Read current events or use the Internet to learn the name of an athlete's business managers and agents. Discover where and when the player is being traded, and contact the agent handling the trade.

FISHING FOR WHALES

The affluent mortgage borrower who needs a large sum for a purchase or refinance should be easy to catch, if you plan and prepare properly. If you are fishing off the dock using bread crumbs, you are likely to catch an abundance of little sunfish. To catch large fish, you must row your boat out to the middle of the lake where the water is deep. You use a down rigger and go for the big fish congregating on the bottom of the lake. You will not catch as many fish as you would while fishing off the dock, however, the ones you do catch will be far larger and more rewarding then the abundant sunfish. The reward will be greater.

To begin fishing the waters of the affluent borrower, you must be inclined to learn who the players are and where they congregate. You will need to enter into new territories, while putting forth the effort to locate the affluent borrower in need of your services. This means continually networking in areas where affluent borrowers inhabit. Be savvy and read the news and current events. Analyze what sector of upwardly mobile affluent borrowers will need financial services because of current financial trends.

The basic axiom of the mortgage business is the harder you work, the more money you will make. A good mix will complement your conforming, conventional business with an occasional large loan where you can earn substantial fees. If you adjust your business to cater to the high-end sector, the rewards will increase three-to-four-fold above your normal time investment reward ratio, and you will inevitably meet new and interesting people.