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EXPERT ADVICE

Phone Interview with Brian Martucci of GetLoans.com

I just got off the phone with Brian Martucci, an excellent loan broker from www.GetLoans.com [http://www.GetLoans.com]. He had a lot to say about the state of the market, including PMI, jumbo loans, the new conforming loans, and the main mistakes buyers make. Take a listen here:

Download MP3 [http://www.audioacrobat.com/export/P5eb122f246fbe599dd1ee31f54d67ef7ZVh/R3tuY2N1VA.mp3]

Here is a transcript of the call:

DRODIO: Daniel R. Odio

BM: Brian Martucci

DRODIO: Good afternoon. This is Daniel Odio with DROdio Real Estate. I'm on the phone today with Brian Martucci of Getloans.com. Brian are you there?

BM: I'm here.

DRODIO: And Brian is probably the best loan broker I've ever met. He's an excellent loan broker and I guess the first step would be for you to explain to people what's the difference between a loan broker and a loan officer?

BM: Well a loan broker typically works with a number of different banks that they sign up with and get approved with versus a loan officer who works for one bank or one mortgage company and represents that institution's money and loan programs. Whereas we can look and shop amongst, personally we're approved with about seventy different banks. So the task from our end is a little more daunting to keep track of all that pricing and all the loan programs, but there's an obvious benefit to the consumer.

DRODIO: So kind of everyday when you get to your computer you look at all the different loan rates from all the different kind of bank partners that you have and you try to keep the pulse on what's going on in the marketplace so that when you get a client you can, I suppose, kind of fit them into the loan programs that would be best for them based on what you know is going on. Is that right?

BM: That's right. When somebody comes to me we obviously have to shop price to be competitive to the consumer, but you also want to take a look at closing costs, execution. There are a lot of banks that may have great loan programs that you don't want to work with, because they take two weeks in underwriting or they over underwrite the file and ask for a lot of conditions that may jeopardize the whole transaction. There's so many variables and of course the consumer, typically just looks at price and a lot of the times they get duped by somebody who's advertising a lower interest rate, but charging higher closing costs or pre payment penalties or just not delivering at all at the end of the day, because the back end of the operation is just a mess. So we look at a number of different things to suit each situation.

DRODIO: So you're basically, the buyer would be interacting with you exclusively and then you have a relationship with a couple of preferred banks that you send a lot of your deals to who kind of got, you know which banks are best for what type of thing and then you're the one dealing with all the banks in the back end so that the buyer never has to be the one that does that. Is that right?

BM: Exactly. I mean if the buyer has the trust in you and obviously they are going to look at the numbers that you're presenting to them and see if they think they're competitive or not. But if they have the trust in you then they'll know that you're scouring all the banks that you work with. Yeah, we typically have probably more than a couple, probably five, six, seven, eight that are kind of our mainstream go to banks. But then there are also others where we may have another two or three that are go to banks for FHA or VA Loans, government loans and there may be another couple that are our go to banks for no documentation loans or stated income loans. So at the end of the day there could be a dozen go to banks, it just depends on what class of loan you're looking for.

DRODIO: Alright. So let's talk about the marketplace, because it's been pretty much in turmoil and up evil from what I've been hearing lately. Fannie Mae raised their conforming limit, FHA did as well. What does this all mean to buyers and kind of what's going? As a buyer is it a good time to buy? And not just the market, it's a good time to buy, but you know, as compared to a couple of months ago, what's going to happen in a couple of months? Does anybody know? Do you know?

BM: Well yeah, I think, I think the only people that have good news out there are the buyers. This is a great time to be a buyer. Everything is pro-buyer right now. The loan program, you know, bumping up the loan limits. I mean it is harder to get a loan in some senses. It depends on, you know, if you've got a decent down payment and good credit it's the same as before. And I think a lot of that stuff that you hear in the media is an over, they act like, you know, the mortgage market is all locked up and you can't even get a loan, that's untrue. But for people that have no money down or needed a stated income loan or, you know, there's a lot of loan classes that were sketchy for marginal buyers. They definitely have a lot more difficulty, but for the A paper mainstream buyers this is a great time to be a buyer, because that's what all the banks are fighting over right now. They want the vanilla clean A paper borrower. If you're edgy you may indeed have a little more trouble, but it you're a regular Joe with regular loan circumstances you're going to get a lot of competition and a lot of loans competing for you, a lot of lenders and you're going to end up with the best terms. The loan limit increases are good news and so, so news. Good news in the sense that anything that can get more buyers in the market would be a benefit to the market as good news. But it's not a huge homerun. For example, the loans that go from $417,000 to $729,000, 750 that's the new conforming loan limit are going to be priced differently. So if you were borrowing, let's say a couple hundred thousand to 417 that's traditional pricing, traditional underwriting guidelines. If you're going to borrow from 417 to 729 that's still a conforming loan now under the changed guidelines, but the pricing is a little higher and there are some restrictions that there are not on the loans that are 417 and less. For example on a loan of $417,000 to $729,000, now this is going to vary bank to bank, it will probably change into the future, but for right now, pricing is anywhere from a quarter to a half percent higher for the 417 to 729 loans. It can only be for single family, only for primary residence, only for fixed rate. So no interest only, no investor property, no second home, no adjustable rate mortgage and it's a little higher interest rate. So that may sound like it's not a great benefit, but it is, because before if you were borrowing five, six, seven hundred thousand you had to go with a jumbo loan, which are priced about a percent over a conforming loan. So even the 417 to 729 are a quarter to a half percent over the regular conforming, it's still way better than paying a percent or a percent and a quarter over. So it is a good benefit.

DRODIO: And what kind of down payment would the average buyer have to put down these days to, I mean, you know, it sounds like 100% loans are really hard to get right now, not a good idea, especially in a declining market of values. So you know is it 5% down, is it 10, is it 20? You know, what do people have to do?

BM: I think they have to do 5, that's the half too, that's the minimum. There are zero down loans, but the banks are stopping them so fast I can't keep track. I'll predict that sometime by the end of the second quarter if not sooner they won't even exist. So we probably shouldn't even talk about those. So yeah, I think 5% down is the minimum and they are FHA is really starting to enter the market big time and those loans have also been raised to 729 in most counties. Now there are some counties where they have not. You'll have to talk to your respect loan officers and mortgage brokers to find out specifics. But for the counties, you know, for the Arlington area, Fairfax, Alexandra, all of D.C., most of Montgomery County it's 729. Well with FHA you can get away with 3% down.� So I would say the bare minimum is 3 to 5% down. On a jumbo loan if you are going eight hundred, nine hundred, a million, then it's 10% down is the bare minimum.

DRODIO: 10%, okay. And so what is the suggested structure? You know people talk about 80/15/5, I imagine that's probably what you're referring to. What exactly does that mean and how much higher does the second trust usually go to that's first?

BM: Well that's in a state of flux too now. It's interesting, 80/15/5 was always the way to do a 5% down loan and an 80/15/5 is an 80% first trust, 15% of the purchase price would be your second trust, there's your 95% financing with a 5% down payment. The second trust used to be as little as 1% above the rate that you would pay on the first trust, well that's a homerun, because the 1% premium on a small portion of the acquisition your 15% second trust might have increased your payment maybe $40.00 a month, depending on the purchase price. But and of course when you compare that to paying PMI of a hundred and fifty, two hundred, two-fifty, PMI can be expensive

DRODIO: And just for all the people who don't know the acronym, they probably will quickly, PMI is Private Mortgage Insurance, which is not tax deductible, which is why everybody wants to do the 15% right?

BM: That's right. Although congress did pass some legislation where in some instances, although it is limited, PMI, Private Mortgage Insurance, is now deductible to some degree. So that's actually changed a little bit. In some instances it's okay to pay PMI and that's what I'm eluding to is that now the spreads have really widened. Nobody, meaning the banks, really wants to do second trusts anymore, because of the declining markets and when you're holding a 15% second trust and values have gone down 5 or 10%, well you're, you know, borrower is under water or even at a minimum and if they foreclose you're going to be lucky to get all your money back, let alone half of it. So they are taking big losses. So now second trusts have gotten a lot more expensive. Now I would say the spreads are a point and a half to two.

DRODIO: Wow!

BM: Which makes entertaining the PMI, especially now that it is a write off to some degree, a little bit of a better proposition. So I actually have done some loans recently where I've got a straight 95% loan with the PMI and it's worked okay financially for the buyer.

DRODIO: So that's a very interesting trend that the banks are basically losing their shirts on second trusts, because when somebody bought a house for five hundred thousand dollars, let's say they did a 100% financing so they borrowed four hundred thousand dollars on the first trust and then one hundred thousand dollars on the second trust is 80/20 and the property is only worth four hundred thousand dollars now and they can only sell it for four hundred thousand dollars now, it's the second trust holder who is taking the bath, they're the ones that are getting completely wiped out. So nobody wants to

BM: Right, they're absorbing 50 or 100% losses where the first trust lender in a foreclosure are getting out whole, because you know, maybe you are getting .80 on the dollar on a foreclosure sale or more and you know, if your first trust lender did 80% financing as part of a 80/15/5 or an 80/20 you're getting your money back. So I know looking at the second trust lenders over the past couple of quarters, there are some second trust lenders that have gotten out of the business entirely. Not only are they pricing a second trust higher, they just chose to get out. So in some of the biggest second trust providers in the nation have pulled out and some other ones are starting to price their rates a lot higher it tells me that nother prediction that I've made is not only are there going to be no zero down loans, I'm wondering if there is even going to be first and second trust combo loans by the end of the year. It might be all PMI or nothing. I don't know that we'll be doing 80/10/10's or 80/15/5's.

DRODIO: Well we'll have to follow that. I'm sure we'll be talking again and we'll get an update from you on how that's looking. That's a very interesting trend. What are some of the biggest mistakes people make when they contact you for a loan. You know, if you could tell people what not to do, you know what are like the top three things you would tell people?

BM: Well I think the first mistakes are probably on I hear on the buy and sell side. You know the buyers think that they're going to go out and get these amazing, you know, 30, 40, 50% discounts and that's not where the market is. The market is soft and you should negotiate hard, but the market's not falling apart. And then on the sell side the sellers make the mistake, some of them, a lot of them are still stick in, you know, pricing from a year or two ago and they don't get that they have to give up a little bit now, that we've had some substantial unprecedented gains in real estate and now that's starting to wobble a little bit and they are going to have to give a little bit of that up. But that's also case by case. I've seen some houses that get sold, you know, if they're priced right of course, they get full asking price. I've even seen a few go above asking.

DRODIO: We've had a couple of multiple offer scenarios as well in like Chevy Chase for example and Georgetown type areas.

BM: I really think that buyers and sellers have to learn about the individual markets. I see a lot of people going in with a, I'll call it a national news media mentality, which, you know, you watch the TV at night it's all negative, negative, negative. I'm not saying there's not negative, because there are lots of negative neighborhoods, counties, situations, homes, foreclosures, you know, it's out there, but it's not everything, it's not devastation, it's not, you know, you're going to get half off discount. So you really have to educate yourself to the area that you want to buy and that's some of the biggest mistakes I see. Specific to the loan side there's no statement that I could make that would be an overstatement that would be, that could describe how bad the mortgage industry is right now and the changes that we see across our desk. As a matter of fact I have a lot of people, which I'm used to for being in the business for twenty-two years. Everybody wants a good deal on their loan, it's a big deal for most people.

DRODIO: Right.

BM: It's the biggest deal that most people do. And we usually end up with people that, you know, we're going to shop aggressively and we're going to scour the internet and we're going to call everybody and that's fine. I don't think there's any lender that doesn't expect to compete and isn't ready to do so. But now that things are changing I think a lot of people are just hearing what they want to hear and there are plenty of people out there still that kind of just tell people what they want to hear to get them in the door and then a couple of weeks later or a week before closing or a day before closing

DRODIO: Or even at the closing table.

BM: Right.

DRODIO: I've had experiences where the rate is not what was promised to them and you know, it's a lender from Nebraska, wherever and it's not local and the loan officer isn't answering his phone that day and they have to buy the house or else they'll be defaulting on the contract. So they're really stuck.

BM: Yeah, there is no amount of due diligence that would be too much due diligence these days to deal with your lender. And it's hard, because most people don't know the questions to ask and I think it's more of, I mean I could sit here and tell you ten questions to ask, but the lenders know how to answer them. I think it's a gut hunch. You know, if it sounds too good to be true, come on folks it probably I mean I've broker with seventy banks and if I say the best 30 year fixed rate out there right now is 6.25% with no points and if you tell me that you saw something on some website that said 5.875, it's literally impossible. They are probably gauging you on fees or there is a pre payment penalty or hidden origination fee or it will just change on closing like you said. You've got to be careful with lenders more than anybody. I think the lenders are the ones that you have to be the most careful with these days.

DRODIO: Alright. So one last thing, you just closed an FHA loan for one of our clients and I think it was three weeks, which is amazingly quickly for an FHA. How did you do it? What's your secret? You know, can you do it on a regular basis? How big of a trick was it that you had to pull out of a bag to make that happen?

BM: Yeah, it really wasn't that much of a trick. I mean you have to have a couple of things. You have to have an appraiser that you have a good relationship with that will turn things around quickly, because that's the longest piece of the puzzle, everything else is pretty quick. The credit reports are automated, getting the income and asset documentation and the loan application from the client are almost immediate, a lot of us do that on the websites. The appraiser has the most time and labor intensive part of it. So if you can get them turned around quickly and get the loan submitted quickly then it's also picking the right bank. I know, for example, you know, out of seventy some banks that I work with most of them, probably 50, 55 do FHA, but I know half of them have, you know, at least 30 day turnarounds and I know you told me we have to move this quickly for different reasons. So I picked the bank that I knew had a quick turnaround, I picked an appraiser that I knew had a quick turnaround and then it's just staying on top of it and not letting things drop and following with your loan processor and everybody, the realtors and the buyers and making sure they're sending things in. If everybody is diligent there's really no reason that a conventional loan can't be done in two weeks, FHA and VA loans can't be done in three.

DRODIO: Well and you have a very unique monopoly style tracking board system where the client becomes the shoe or a car, a top hat, basically a monopoly piece and then the client and even us as the realtors can visually see around the board what status their loan is in, which is really great. It sounds like it's pretty popular from what I saw.

BM: It is. It's the most frequently visited portion of my website and I track all that. Not only from people who are my clients and who are tracking my loan and it's also kind of an education tool, because when you are assigned your game piece and you're following it around the board from loan application to the appraisal's been ordered to don't forget to shop for your homeowners insurance, to your appraisal is in, your loan's been submitted, your loan's been approved, a little ditty about title insurance, your title works is in, you know, it literally steps you through each phase. And as your game piece lands on the next square you click on each square and it will educate you on that piece of the loan transaction and it's good to learn about some tidbits on shopping for homeowner's insurance and what some of the different coverage's mean, what tile insurance means, which surprisingly not many people know or even get educated by, by anybody in the transaction, not the title company or anybody. So it's a good education tool. And I find a lot of people go there that aren't doing loans with me, but just want to learn about the process a little bit. So it's a good status checker and it's a good education tool.

DRODIO: That's great. Alright. So why don't you give everybody your name and contact info so they can contact you if they're interested in getting a loan.

BM: The name is Brian Martucci, I'm a mortgage broker. My website is Getloans.com, that's G-E-T-L-O-A-N-S.com. My phone number is 202-588-2400. And if you just go to the web page as a start it's very self explanatory, very intuitive, you'll find the loan tracking tool we've been referencing. There's an interest rate page where rates are updated. There's a lot of different tools and fun things on there for people to check out.

DRODIO: So Getloans.com 202-588-2400 you said?

BM: That's right.

DRODIO: Well Brian thanks for taking the time to educate everybody about this and hopefully you'll get a couple of calls of some people asking some more questions. I have to say you're amazingly well informed in this industry. We have lenders, you know, probably five lenders coming to us and telling us that they want to be one of our preferred lenders and I'm just very happy that you're one of the ones that I've chosen to work with, because you just are always full of knowledge. So thank you for being a great resource.

BM: Thanks for reaching out. This was a fun chat Daniel.

DRODIO: Alright take care man. Bye, bye.

BM: You too.