

# THE LAMPPOST

*Lighting the way in Finances and Life*

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Volume 6, Number 3

May/June 2007

## Time for a Change

You've read the headlines, "Another Subprime Lender Bites the Dust", "Mortgage Delinquencies and Foreclosures on the Rise", "Mortgage Lender Indicted for Fraud". There has been a lot of mortgage and real estate news making headlines lately. For consumers, the news is frightening and confusing. How does one make sense of all this?

This whole dilemma started back in the 1990s when the economy was good and sub-prime banks (institutions that lend to people with damaged credit) wanted to expand their market share (a.k.a. Greed). Many sub-prime banks got creative as to how they would allow consumers to document their income or not even require an applicant to disclose income or employment information.



Banks also became more lenient with their credit guidelines and relaxed their standards by allowing those with credit problems to jump back into home buying sooner than usual. It got so lax that some banks were allowing consumers to purchase a home when they were only a day out of bankruptcy!

Short term adjustable rate mortgages also added to the fray. Option ARMS and hybrid ARMS offered low initial payments, but many consumers were socked with payments and balances that skyrocketed after their introductory payment periods.

Add these products to liberal underwriting guidelines and mix in 100% financing programs and the banks created recipes waiting for disaster.

Because the economy was supercharged and investors were looking for products with higher rates of return,

banks began to package and sell these high risk, high yield loans. Investors were willing to purchase these loans with the agreement that the banks had to buy back these packaged loans if a certain percentage of consumers began to be delinquent or default on their loans.

Then the economy began to sag, real estate sales slowed, and home values stopped appreciating and even declined. Bank's worst fears were realized and investors forced them to buy back the loans. Most of these packaged loans were securities worth tens of millions or hundreds of millions of dollars. Banks didn't have these funds in their reserve accounts and many were forced to shut down their operations.

Another part of this mess was fraud committed by loan officers who compromised already liberal underwriting guidelines. People who had no means to pay back large mortgages were not only placed into loans that weren't suitable for them, but were socked with expensive pre-payment penalties for trying to get out of them. In many cases these were lose-lose situations for the banks and their customers.

The result is over 20 national sub-prime mortgage lenders have gone out of business, mortgage lenders have dramatically tightened up their underwriting guidelines, the real estate market is in it's largest slump in over 20 years, state and federal legislatures are enacting new laws, and tens of thousands of homeowner's are losing their homes nationally.

So what does the future hold in all this? Many national real estate experts and economists are saying that we are not out of the woods yet. They are predicting that this downturn will last for another 12 to 18 months.

But, for 1<sup>st</sup> time buyers and real estate investors, the time is ripe to pick properties that have reached their lowest values while interest rates are still attractive.

# First Impressions

“Dad, do you want to say goodbye before we leave?” Amy called up the stairs as she was about to leave for a banquet with her latest beau. Wearing my ugly dad t-shirt, shorts and old man sandals I sized up the young man standing in my entry way, holding flowers.

He wearing a Mr. Roger’s-like sweater, button down shirt with a tie, and a shirt not tucked in. Though he is a fairly handsome young man, he seemed rather sloppily dressed for a dinner banquet. I noticed he had not buttoned his collar down over his tie – a major no-no in my business dress world. I let him know about his oversight as they were leaving. My wife gave me “the look” but I figured the kid needed some help.



The next morning, I was verbally assaulted by my angry daughter who said I had no business commenting on this young man’s attire and that I had offended her and him. I was told that I know nothing about fashion, I’m not very friendly, and that I have a double standard. I tried to defend myself by saying that I would have told any one about the button-down collar thing because, in my mind, it was like telling someone their shoe was untied or their fly was down. The verbal blasts continued. What can I say? The guy just didn’t look like someone to whom I wanted to hand-off my daughter.

A while later I really began to think about Amy’s comments. She had some valid points. I really do know nothing about fashion. My wife is in total control of my wardrobe. The kids work for her.

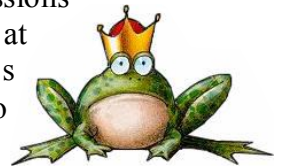


They once caught me trying to leave for work wearing a red plaid shirt with a green sweater vest. They actually called Eloise on her cell phone and sat gleefully celebrating while she sent me back to my closet for another try. That day lives on in Hastings fashion faux paux infamy.

I pondered the charge of being unfriendly. I consider myself a pretty friendly guy, but there’s a big difference between the gas station guy with the

nose ring and someone who may potentially become part of my family. I don’t want this kid to think he can win me over too easily. He needs to work a little bit to impress me. After all, he is asking to spend time with MY little girl. In my eyes, if a young man comes to my front door dressed as a slob, the impression that immediately comes to my mind is that he doesn’t respect himself or my daughter enough.

I guess I do have a double standard when it comes to those who come into contact with my children. If I see a grungy looking kid hanging around a shopping mall, I’m wary but accepting. If he is hanging around my house with my daughter I might not be so nice. As a father, I believe it’s wise to carefully evaluate the people with whom my children spend their time. It takes time to get to truly know someone. First impressions can be very deceiving. We’ve all at one time trusted a “wolf in sheep’s clothing” or misjudged a frog who is really a prince. There is a delicate balance between discernment and prejudice.



First impressions matter, but they are not always accurate. The rumpiled young man on my front door step later asked my permission to date my daughter, assuring me that he valued my position as her father. He can come back. We ALL evaluate those around us in some sort of way because the way a person looks or dresses says something about them. How we respond to that person is what really matters.

This morning, I shaved off my goatee. My youngest son, Peter, looked me over and declared, “Dad, you look like an old, naked crab.”

