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# The Reserve-First 100% Mortgage

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By Al Lewis

## Winning New Home Sales Strategies

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### How to Turnaround the Dead-In-The-Water New Housing Market Without Sub-Prime Financing.

#### First.

A takeout lender or investor (possibly a union or pension fund) commits to funding the entire estimated sales volume of a builder's project prior to the builder's commitment to a construction loan for project development.

#### Second.

The terms of the prearranged takeout financing offered buyers include each of the following sales incentives: 100% assumable-first financing, stated income, no qualifying; no minimum FICO score requirement or any FICO at all; no documents other than those required of title insurance; twenty-four hour approval; three- to seven-day closing.

#### Third.

Buyers (now borrowers) are required to place an amount of money equal to a good faith estimate of twenty-four months PITI/HOA into a trust account as a "Reserve" against loan and HOA service requirements.

Should a borrower fail to pay per the terms of the hundred-percent reserve-first financing, money will be withdrawn from the reserve to service the loan as required beginning as soon as fifteen days after a payment is delinquent.

Payments will be considered delinquent thirty days after due. To cure a delin-

quency, borrowers will be required to refund the reserve in full for funds advanced and be current month-to-month as provided.

Upon a borrower's delinquency for a period of two consecutive months (payments), and upon notice to cure, if the reserve account is not refunded and the delinquency cured within thirty days, the trustee, warehouse or escrow managing the loan will proceed with a standard foreclosure subject to the laws of the state where located.

Upon this event the borrower has the option to execute a Deed in Lieu of Foreclosure – and to vacate the subject property within thirty-days of executing the deed – so the trustee can begin and proceed with the standard pre-sale refurbishment and sale of the subject property to a new buyer/borrower.

The benefit to the borrower for taking this action is that upon the resale of the subject property to a new buyer/borrower, the remaining unused portion of their contribution amount to the reserve fund will be refunded to borrower prorated to the date of the property's closing less the costs of sale incurred.

Note / If at the time of the original sale/purchase the builder/seller contributed maybe five- or ten-percent of the purchase price to the reserve fund as an incentive for buying, that money will remain in the reserve account and accrue as an incentive to new or replacement buyers however many times that may occur on a single property for the life of the loan. At payoff it

accrues to the beneficiary increasing their yield on the investment substantially.

Under this scenario the beneficiary has nearly twenty-one months loan service remaining to market and sell the property before the first "actual" delinquency occurs.

If the borrower does not act on the Deed in Lieu of Foreclosure option, but requires the trustee to proceed with and complete a standard foreclosure and eviction, the refund option is waived.

The benefit to the borrower for taking the Deed in Lieu of Foreclosure action is substantial and noteworthy.

Though the original loan is assumable, it may be adjusted up to meet the requirements of a new, higher sales price without the need of a cash to seller infusion. This will increase the investor's yield significantly. The loan may be adjusted down as well at a loss to the investor to accommodate a lower sales price.

The investor alone is the loan committee that decides on the parameters of the sale, adjustments and costs.

Generally, the reserve-first mortgage is assumable at the current rate and balance provided the new buyer/borrower funds in full a twenty-four month reserve as required of the original mortgage however structured.

The reserve-fund is essentially a buyer's equity position in the property and, potentially, remains the property of the buyer even upon foreclosure as speci-

fied. The reserve-fund remains in escrow through the life of the loan and is refunded upon or at time of payoff.

Note / It is unheard of that a buyer is refunded their down payment upon foreclosure or payoff, but that is exactly what will happen here subject to the following.

From and/or at the point the property is put on the market to seek a replacement buyer, the reserve-first loan, taxes, HOA, and insurance are serviced one-hundred percent, or able to be serviced one-hundred percent, for as long as the funds last.

After the original twenty-four months have passed, and if no new buyer has been found, the loan then for the first time goes in arrears and the original buyer waives all rights to a refund of their reserve account in any amount.

The loan then is held by the takeout investor at a loss until a new buyer is found. Possibly, an increased rate for the next buyer would compensate for loss over the life of the loan. This can be evaluated and offered buyers as needed by the investor.

Upon borrower bankruptcy, the laws of the state where located will govern disposition of the borrower's assets including the reserve fund. Statistics indicate that less than one-percent of the U.S. adult population file bankruptcy at some time in their adult life.

#### **Fourth.**

Prior-to and, possibly, subject-to the takeout lender's commitment to funding the entire sales volume of a project as specified, the takeout lender can secure a single secondary investor for the total amount of financing offered plus/minus some reasonable percentage.

Then when all loans are in place, one single all-inclusive security is to be transferred to the prearranged "Private" secondary mortgage market investor, thus eliminating the need for the conventional FDIC secondary money

market, its rules and regulations, Wall Street and their doings, etc.

#### **Scenario.**

Purchase Price	\$350,000
Estimated PITI	2,305
24 Month Reserve	55,320

#### **Approximately 15% of the Purchase Price. No Mortgage Insurance.**

The Builder/Seller can provide reserve-fund incentives (deposits on behalf of buyers) down to any amount: 10%, 5%, etc.

#### **In Closing.**

Imagine the increase of buyers by the thousands within every state and region because financing is available that requires no more than approximately five- to fifteen-percent down/reserve to close without qualifying requirements of any kind.

And, imagine a lender's pleasure at having not to compete for loans, but having maybe hundreds prearranged for closing with a builder of choice project after project.

And, imagine a secondary money market investor's pleasure at purchasing notes with guaranteed payments extending for two years after defaults by each and every borrower, all within one predefined, approved community: no mixing of notes, communities, cities and locales.

A lender and/or builder should have no problem replenishing their source of financing project-to-project and secure, maybe, even another source of revenue by being the loan arranger, takeout investor and warehouser themselves.

And, lastly, there's one more carrot not yet mentioned that can be sought by all: the interest earned on the reserve funds held in trust. Imagine just one-hundred \$50,000 accounts. Why, that's interest on five-million dollars annually, multiplied by thousands and thousands. Disposition of these funds is negotiable subject to the structure of each financing security created.

This is a "How To" scenario that if pursued with vigor has the possibility of turning around the entire housing market nationwide. It is not a pre-defined fix-all for every legal situation or get-around of every State's or Municipality's real estate statutes, foreclosure and bankruptcy laws, etc., but it's close.

For my part, I would enjoy consulting with any on the matter, particularly builders in need of creative turnaround scenarios for dead-in-the-water projects.

Thank you.



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