

WealthWise

Investment Perspectives from HSBC
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Mortgages: What You Need to Know Now

Housing prices and lending standards have changed. To determine whether this is the right time for you to consider financing a new home purchase, keep these important points in mind.

With housing in some regions now on the market for less than half the sale price of three years ago, “bargains” for primary or secondary residences in formerly high-priced communities can seem tempting. But with dire predictions about the future of real estate still making headlines, buying property is a very different proposition than it was in the boom years.

With the recent financial meltdown, fueled in part by the subprime mortgage collapse, securing a mortgage is likely to take a little more time, a bit more disclosure and a larger down payment than the last time you purchased real estate. “In general, lending standards have changed greatly,” explains Wayne Morlock, Senior Manager—Product Management, Mortgage and Home Equity for HSBC. “All income levels have been affected.”

Morlock said that Fannie Mae recently issued a reminder to lenders that they are responsible for a borrower’s undisclosed liabilities. This means that the agency is looking to make certain that (1) the borrower has not taken on any more significant debt

after applying for the mortgage that would impair his or her ability to repay the mortgage, and (2) the borrower has not attempted to take out several mortgages on the same property. Lenders are now also double-checking employment to make sure a prospective borrower is still employed just prior to closing. “And of course, lenders still take a thorough look at factors related to a borrower’s willingness and ability to repay,” Morlock notes.

Though the above process should not delay what is generally a four- to seven-week-long mortgage-approval process, obtaining the appraisal might. If an appraiser values a property for less than the sale price, resolving the discrepancy will extend the loan-approval process while the buyer and appraiser resolve the discrepancies—or go back to the seller to renegotiate the sale price. Morlock has seen some deals fall apart at this stage: “If the appraiser cannot find additional information to revise the appraised value, the lender simply may not be able to do the deal—and given what we’ve seen as the real estate bubble burst,



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Talking Points

Consider raising these questions with your Financial Advisor or Premier Relationship Manager as you explore purchasing real estate:

- ▶ How large a down payment should I expect? What would be the advantage and disadvantage of putting more money down than required?
- ▶ How can I ensure that I have adequate reserves set aside for the real estate transaction I’d like to pursue?
- ▶ What are the differences between financing a primary and a secondary home in the area where I’m considering a purchase?
- ▶ I’m looking to buy in an unfamiliar locale; what assistance could you offer me through HSBC’s network?

that might work out to be in the buyer's best interest."

A Big To-Do About Down Payments

People seeking jumbo mortgages—loans in excess of \$729,500—can expect to put up jumbo down payments. Depending on how soft a given area's real estate pricing has become and is predicted to be over the next 12 months, that down payment could be as little as 20% or as much as 40% of the purchase price. For example, if you're intent on setting up house in the Miami area, Phoenix/Glendale or parts of central California, a larger down payment is likely to be the rule. Other locales—Buffalo, for instance, where real estate prices have remained relatively stable—can be less prohibitive. That said, many areas are starting a housing recovery, which means they are no longer classified as soft markets, and may mean some lenders will be likely to accept lower down payments than may have been the case even a few months ago. Two examples are Long Island and San Francisco.

However, even as the size of the down payment has increased, liquid reserve requirements for jumbo loans have become more manageable. Until recently, many lenders required 24 months of reserves to qualify. For example, a buyer with a monthly mortgage payment of \$5,000 would need to hold \$120,000 of cash or highly liquid assets in a brokerage or bank account to demonstrate willingness and ability to repay. Currently, the requirement on most jumbo loans may be half that.

Even so, lenders may still impose additional requirements on a jumbo loan to reimburse them for the size of the risk they incur when extending such a large amount of credit to a single borrower. The greater the degree of risk a lender finds in a particular deal, the more likely it is that a borrower

will find that his or her mortgage carries one or more "overlays." These overlays are additional charges required to ensure that the risk is adequately covered and can take the form of either higher rates or higher fees.

For example, a lender might add a rate overlay of up to 0.40% if a borrower chooses a stated-income loan, in which the lender does not verify the borrower's income. And if you are employed by a company rather than self-employed, some lenders will no longer allow you to take out a stated-income loan. "There can also be somewhat lower rate or fee overlays if the deal's loan-to-value [LTV] ratio is lower or the borrower's FICO score is higher," Morlock says. Guidelines on loans for second homes will be similar, but LTV and credit-score requirements may inch up.

One bright spot: In the case of very highly qualified customers, risk-based pricing can lead to a lower-than-stated base rate for the mortgage because they represent a proportionately lower risk. "Borrowers must have excellent credit to qualify for a jumbo mortgage to begin with," Morlock says. "Generally speaking, that means credit bureau scores greater than 700; however, some lenders will accept lower scores but require a higher down payment, along with a minimum of 12 months' liquid reserves, and an average loan-to-value ratio lower than 70%. Lenders also look at gross disposable income (GDI)—what you have left each month after you pay your bills—rather than or in addition to a ratio of debt to income." Borrowers who exceed these GDI standards are likely to find themselves in an enviable position as a qualified buyer.

For most prospective buyers, all these considerations are likely to leave would-be house hunters less than excited about the prospect of owning a suddenly affordable

A Home Away From Home

House hunters looking to purchase outside the United States,¹ foreign borrowers with qualifying visas living in the U.S., or foreign nationals who are ready to own second homes in the U.S. are likely to find similar lending conditions. However, these parties would do well to consult their Financial Advisor or Premier Banking Relationship Manager about their individual situations. "HSBC does business in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa, and may be able to provide insight and contacts on the ground," Morlock says.

¹ Mortgage loans may not be available in all countries. Mortgages outside the U.S. are offered by various HSBC Bank USA, N.A. affiliates overseas, and are not offered by its U.S. subsidiaries or affiliates.

vacation property or trading up to a longed-for new home sooner than expected. "Caution is understandable in this environment," Morlock says. "However, well-capitalized buyers who do their homework definitely can find—and take advantage of—the unique opportunities out there."

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