STOP STEALING YOUR CLIENTS' JOY!

BY CHRIS SMITH

I am so over it! Yes, rates are high. It's no secret. EVERYONE is aware! So why do so many of our Lenders and Real Estate professionals continue to "blame and complain" rather than come to terms with a higher interest environment? It's been well over a year. I think it's time. And I will seriously scream, if I go to one more funeral (closing, I meant closing...), and hear, "And uh, this is your rate…, and um, you know like, check in with your loan officer from time to time, and uh… maybe ask if there are any refinance opportunities.". I'm serious. It's cringey!

This "doom and gloom" thinking is creating a distraction, and it's robbing your client of the joy of homeownership! Forget payment, rate, home values (we'll get into all that later), instead try to remember the sense of pride and confidence you felt the day you purchased your first home. Don't you want your client to experience that same feeling? We need to adapt and lead our client through this market.

Grab a pen and write this down. If you take one thing away from this article it should be this, "NO ONE WANTS TO FEEL LIKE SHIT ABOUT THEIR PURCHASE". We're salespeople. Yes, highly trained, licensed, educated finance professionals, but just like the traders on Wall Street, it is very much, a sales job. And, shouldn't a good salesperson do everything possible to make sure their client walks away with a smile on their face?

Take Matt and Mary for example. Matt and Mary do not own a washer or dryer, so they spend most of their weekends at a laundromat. They're always afraid of their clothes being stolen, so they never leave them unattended. They take shifts waiting at the laundromat which means they spend less quality time together. Matt and Mary are certainly not living to their potential. But, that is all about to change. They've been saving for the last several months and managed to set aside $1,000 to purchase their very own washer and dryer! Now, it's important to note that Matt and Mary are, what you may call, a conservative consumer. They're well aware $1,000 is not much to work with and they have reasonable expectations, but they're unwavering on budget!

They arrive at the local box store. They're immediately greeted by a friendly sales representative named Fred. They explain their situation and acknowledge their modest budget. Fred nods and assures them they'll be able to work out something. But first, he has questions. Fred asks about their family, their occupation, what do they do for fun?, what are their goals?, etc. After several minutes of conversation, Fred was ready! He led them over to his latest and greatest washer/dryer combo, the PRO SERIES 9000 MAX ELITE PLUS priced at $3,500!

Stunned, and rather irritated, Matt and Mary scold Fred for not listening and trying to sell them a product that they do not need. After all, they've done their research, they know what type of washer and dryer is best for them. Fred chimes in, "Hear me out. I promise, I was listening. In fact, after asking all my questions, I'm confident I have a good understanding of your situation, which is why I selected this model to show you. Let me explain. You told me you both work. I think we'd all agree a laundromat is the last place you want to spend your weekend. After a long week, I imagine you're ready to relax, have some fun, spend time with your family and friends, knock out some of those chores around the home. See, the PRO SERIES 9000 MAX ELITE PLUS not only washes and dries, it sorts the whites from the darks (humor me on this), it separates the delicates from the normal, but that's not it! This model steams, it presses, it folds, it even has the option to button your shirts! The PRO SERIES 9000 MAX ELITE PLUS will save you so much time you'll finally be able to embrace the finer things in life, reach for the stars, make those dreams a reality!

Mary, didn't you say you'd like to go back to school and finish your Master's Degree, but you just can't seem to find the time? Mary, did you know the median earnings for those with a master's is some 21 percent higher than those with a bachelor's degree? Your currently salary is about $40,000 per year, right? Think about it Mary, with a Master's Degree you'll turn that into $48,400! Listen Mary, we're talking about a life-changing opportunity here! It's right in front of you, all you need to do is reach out and grab it!

Matt, you told me your car needs new brakes and rotors, and you could save a lot of money if only you had the time to fix it, right? Instead, you're going to take it to a mechanic and pay twice the price. See Matt, the PRO SERIES 9000 MAX ELITE PLUS was built on the idea that time is money! There's no question this model pays for itself, but even more important, it's an investment! Yes, it's considerably higher than what you hoped to spend, but let's not step over a dollar to pick up a dime, Matt. Did you know we have financing available? You can pay for it over time. And don't worry about the interest, the increase in Mary's salary and the money you'll save doing your own auto repairs will out-earn any interest."

Matt and Mary were speechless, their eyes had been opened to a whole new way of thinking. They excused themselves to discuss privately. "He's right!", they agreed. Matt and Mary were completely at ease. They felt empowered, enlightened, and with a quick handshake and smile, the deal was sealed, and Fred led them to the register. Matt and Mary were beaming! They thanked Fred over and over, and just as Fred handed them the receipt, he said "I have absolutely no doubt you're going to be completely satisfied with your purchase. I'm very happy for you! I just wish you would have come last week when the PRO SERIES 9000 MAX ELITE PLUS was on sale for $1,700. But hey, don't sweat it. Even though you paid over twice the price as last week, the numbers add up and it's still a wise investment. After all, numbers don't lie. Congratulations on your purchase!"

Whoa!! What's wrong with, Fred? Why would he steal their joy like that? For what purpose or good did that serve Matt and Mary? After all, does Fred have any control over the prices set by his employer? Does Matt, or Mary? Everything he said was true and applicable to their situation. It was a perfect solution to their problem, so why did he lack confidence in the final moment of the sale? Did he underestimate their ability to comprehend his "big picture" wealth creation strategy. Or, worse yet, maybe Fred still measures "price" over the value of his product (and himself).

So, what do we do? Do we keep talking about how mortgage interest rates tripled? Do we hide behind our mobile apps to avoid an inevitable conversation about rate? Or, do we take the lead and start educating our clients on the Power of Homeownership? The truth is, for most of our clients, owning a home is the most obtainable opportunity for wealth creation. Think about it. How many of your borrowers are debt free, have 6 months reserves, and take full advantage of an IRA, or better yet, an employer's matching contribution toward their retirement plan?

Lead your client away from the "distraction" of interest rate and toward, what is likely, the most lucrative investment of their lifetime. If you need further convincing, just keep on reading.

Is it important to discuss the strong likelihood that our borrowers will be in a refinance position over the next three years? Yes, of course. But you need to go deeper than that. You need to establish their trust. You need to become their most "trusted" advisor!

I'm a worst-case scenario type of guy. Anytime I am weighing the pros and cons of a major decision I like to consider the worst-case scenario, and whether I can accept the outcome if the investment doesn't go my way. So why not address the elephant in the room? Why don't we take the interest rate conversation head on? The sooner we disarm this "distraction", the sooner we can lead our clients toward wealth creation. And, I believe the best way to handle this is by discussing the pros and cons of "payment" vs. "total out-of-pocket cost". Now, the goal is not to scare the hell out of them, but it's also very important to be deliberate and not leave them with a false sense that a future rate reduction refinance is inevitable. Keep it informational. Start with a more likely "middle of the road" scenario (a modest future rate reduction vs. their estimated time in the home), then a more aggressive "best-case" (a substantial reduction in rate vs. estimated time in home), but they key is to spend plenty of time listening and resolving their anxiety by confronting a worst-case scenario (inflation turns out to be more resilient than predicted and a future refinance is unlikely). This builds trust, and if done earnestly, removes any element of surprise. Let's give it a try.

A recent study conducted by Redfin found the typical American homeowner spends 13.2 years in their home. According to the National Association of Realtors the average sale price across the Unites States is approximately $400,000. So, let's create a worst-case scenario based upon these figures. Let's say our client has a 5% downpayment ($380,000 loan amount) and the 30yr fixed rate is a whopping 8%! At 13.2 years (159 payments) our client paid approximately $372,000 in interest.

- 13.2 years – average time in home
- $400,000 – average US home sales price
- Total interest paid $372,000.00

According to a 2022 article by Credit Karma, Between 1940 and 2000, the average home value quadrupled (even when adjusted for inflation). That would be an average annual interest rate of 2.3%. So, a home purchased for $400,000 that appreciates at an annual rate of 2.3% would be worth $540,644 in 13.2 years. In that case, our clients' appreciation is $140,644 over the original purchase price. However, our client paid $372,000 in interest, right? So, we need to subtract the "appreciation" from the "interest", and the result is a relative overall interest paid of $231,356.

$372,000 (total interest) - $149,644 (appreciation) = $231,356 (overall relative cost)

Now hypothetically, what would the interest rate be if the total interest paid over 13.2 years was $231,356 (not $372,000)? In that case, the rate is 5.2% (not 8%)!

Let's look at it in terms of payment. The total monthly principal and interest payment at 8% is $2,788/mo. The payment at 5.2% is $2,086 ($702 less). That is a 25% decrease in payment!

Loan Amount	Rate	Mo. Pymnt (PI)	Interest Paid (13.2 yrs)
$380,000.00	8.0%	$2,788.00	$372,000.00
$380,000.00	5.2%	$2,086.00	$231,356.00
relative reduction:	**-2.80%**	**-$702.00**	**-$140,644.00**

**total interest reduction is based upon sale of home at 13.2 years at a 2.3% annual appreciation rate.*

If the above example is too much to digest, try this. In simple terms, if you keep your house for 30yrs with a 5.4% fixed rate mortgage and it appreciates at an annual rate of 2.3% (adjusted for inflation), <u>then the final value of your home would offset its original cost + all interest paid over the life of the loan.</u> Not too shabby!

So, whether it's a hypothetical 2.80% reduction in rate, or a $720 decrease in payment, what's important is you're leading your client to make a well-informed decision. You're protecting them from the distraction of higher interest rates and teaching them wealth creation through the value of homeownership.

So, ditch the mobile app and start talking with your clients. Be an advisor, ask questions, enlighten, discuss wealth creation, and always discuss a worst-case scenario. Do this and you'll earn their trust and respect.

Good luck!

Chris Smith
Area Manager
Nations Lending
NMLS #470511

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