REMOTE CONTROL RETIREMENT RICHES

MARCH 2020

CREDIT SCORES

PROTECTION DURING THE PANDEMIC

SPECIAL COVID-19 ISSUE

CREDIT SCORING MODELS & FINANCIAL GOALS

RENT: WHEN TENANTS CAN'T PAY

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We hear the concern that some tenants may not be able to pay rent due to the Coronavirus crisis.

While this is a valid concern, there are a couple of things to consider:

We talk about buying new homes in good areas. When these are the homes you buy, the likelihood of your tenants being "white collar" is high.

White collar employees are the ones who usually have the easiest transition to working from home. These would be high tech employees, engineers, etc. These types of employment lend themselves easily to working remotely, working from home, using Skype and Zoom for video meetings etc.

Thus, the likelihood of white-collar employees not being able to pay their rents is lower.

This is another example of why it makes so much sense to buy good homes in good areas.

Many new investors are attracted to the lower costs and supposed better cash flow (on paper), of houses located in bad areas.

What is happening now is just one example of why that may not be a good idea.

An exception is very low-end areas, where most of the tenants are HUD-and-Section-8-helped tenants. HUD and Section 8 will continue to pay rent for the tenants regardless. However, these types of houses are always challenging and their future appreciation may not be as high as good homes in good areas.

During the last recession, which started in 2008, we obviously bought homes not only in good areas, but picked up bank foreclosures in any area, including blue collar locations. However, during regular times, buying brand new homes in good areas is a staple of smart investing.

There may also be help on the other end for landlords, if rents aren't being paid, there are forces now working with lenders to give abatements and postponements of mortgage payments. When there is an issue at one end, the other end has to be addressed as well. In California there are already lender concessions to 90-day delay on mortgage payments by some of the major banks, with no repercussions to the mortgage payers, or late fees. It is likely that the rest of the nation will follow suit.

We will discuss this, and other issues, during our next big 1-Day Expo on May 16th. It will be an online event.

SURPRISING TENANT ACTIVITY REPORT

Here is an interesting phenomenon:

Our Oklahoma City manager is reporting an unusually large amount of rental applications being approved this past week.

The trend? Many tenants do not feel safe in apartment complexes (same vents deliver the AC and heat to all apartments, so if the tenant in unit 12D is sick, all units get that via the common air ducts). Also common elevators, laundry facilities, etc.

The result, apparently, is that people are mobilizing to leave apartments and rent single family homes, where they can get safe social distancing.

This is an unexpected consequence of the crisis, and of sheltering at home.

So, there is a silver lining as well.

We hope to get reports like these from other markets as well, as the logic to move to single family homes makes perfect sense.

CREDIT SCORES

PROTECTION DURING THE PANDEMIC

Joe Merante, Regional Director of California, Continental Credit

For many facing layoffs or other income losses, the first step towards long-term healthy credit lies in figuring out how to stay afloat today.

If you're already facing financial uncertainty, reach out to your credit card issuer to request assistance; many issuers have personalized solutions for cardholders facing hardship due to the coronavirus outbreak. And if you're in a position where you're able to prepare, put your extra funds to good use now to set yourself up for security over the next several months.

Here are some ways you can begin to safeguard your credit and deal with the unique challenges of this pandemic's impact going forward:

Two of the most influential factors that make up your FICO Score are payment history (35 percent) and amounts owed (30 percent).

These factors help lenders determine whether you're able to make payments on time and in full, and you haven't overextended yourself by taking on large balances you're unable to pay off. They are indicators of your default risk on payments.

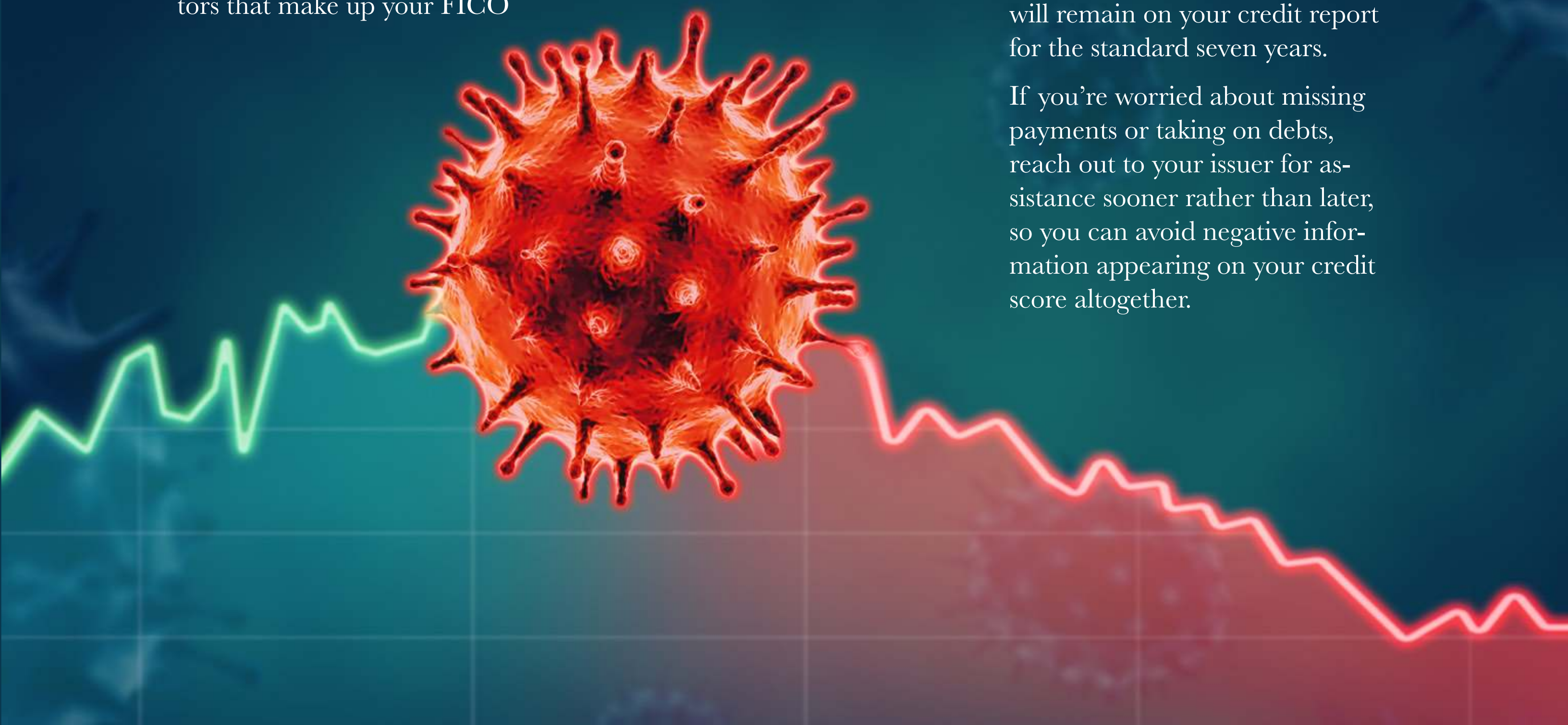
Missing payments and using most of your available credit tell potential lenders that you may be at a higher risk of default, decreasing your score.

Even when facing economic hardship, doing what you can to make minimum payments on time and avoiding racking up large amounts of debt on your cards can go a long way in keeping your credit score healthy. "As you work to manage your finances during these hard times, prioritizing on-time payments and keeping credit card balances low to help limit the impact to your credit score," says Amy Thomann, head of consumer credit education at TransUnion. "Again, it's better for your credit score to make minimum payments instead of no payments at all."

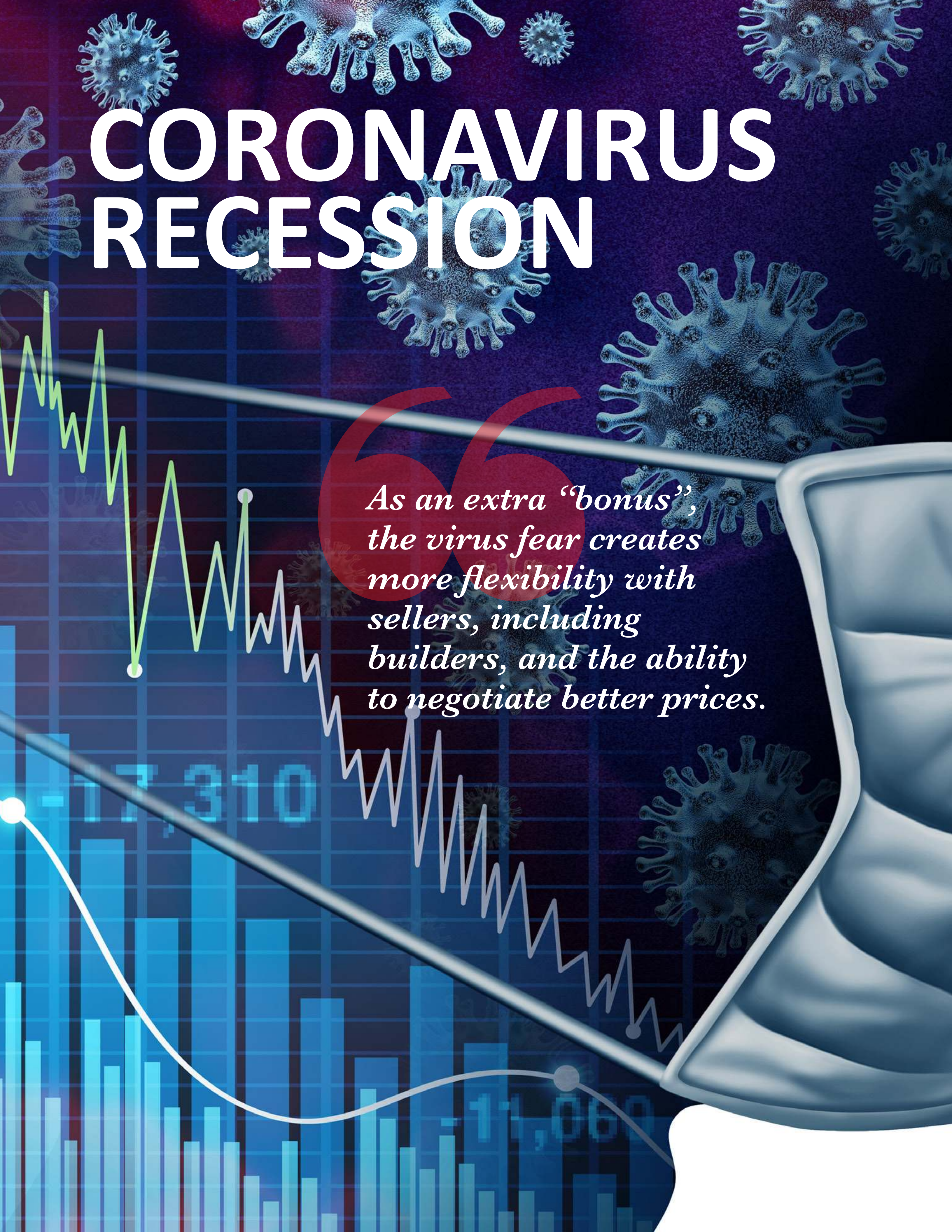
A history of missed payments can have long-term effects. "If you're only a few days or a couple of weeks late on the payment, and you make the full late payment before 30 days is up, lenders and creditors may not report it to the credit bureaus as a late payment," says Beverly Anderson, president of global consumer solutions at Equifax.

And if you miss a payment by 30 days or more but you can pay it before your next due date, your lender should report your account as current. However, she says, the already-reported late payment will remain on your credit report for the standard seven years.

If you're worried about missing payments or taking on debts, reach out to your issuer for assistance sooner rather than later, so you can avoid negative information appearing on your credit score altogether.



CORONAVIRUS RECESSION



> *As an extra "bonus", the virus fear creates more flexibility with sellers, including builders, and the ability to negotiate better prices.*

As we all observe and fear the Coronavirus, we see many cities under "shelter-at-home" restrictions, and many "non-essential" businesses closing. Then on the other hand, the Fed lowered rates almost to zero, and mortgage rates, after a short spike, are starting to settle down near the lowest point ever. Some people fear a recession is likely to follow, and if we remember the recession of 2008, I think it's quite possible. That depends, of course, on the length of the lock-down.

If a recession does occur, let's point out some of the differences between the recession of 2008 and the next recession, if it hits.

Before the 2008 recession happened, there was a major boom in many states. Home prices in states like Arizona, Nevada and Florida went through the roof. The media was shouting "It's a bubble! It has to burst!" Prices of homes in Phoenix, for example, nearly doubled from the beginning of 2004 till the middle of 2006. Not all states participated in the party, for example, Texas and Oklahoma have not gone up very much during that time.

When the 2008 recession hit, the markets that went down precipitously were, of course, the exact markets that had participated in the 2004-2006 boom. Places in Arizona, Nevada, Florida, and other states. Prices tanked and crashed quite a bit. However not across the board. States like Texas and Oklahoma did not go down very much during the recession of 2008.

By contrast, at the present time, especially in affordable markets like Oklahoma City, Tulsa, Baton Rouge, Central Florida, parts of Atlanta, Raleigh and others, there are currently no price bubbles. No major boom has happened, thus the likelihood of a major price crash in such markets is much slimmer than in the markets which crashed in the 2008 recession. There are very high priced markets now, the expensive market in San Francisco, for example (which has already started going down in price last year). In such markets, there may be a stronger effect on prices. Also, when you invest in a brand new home in a good area in Oklahoma and pay $170,000. You are buying the home not much over the basic construction and land cost. The probability of an "intrinsic value" home like this going down much is small. By contrast, a $2M home in San Francisco, which cost $900K to build, has a lot of "air" in the price, with a higher likelihood of prices going down in San Francisco.

The recession of 2008 was created by housing. Lenders released all limits, and loans were made to virtually anyone that was human, almost regardless of credit or ability to pay. Some loans were up to 125% of the value of the house. This bad debt, called "sub-prime", was then packaged among other debt, and amazingly, the credit agencies gave these packages high ratings, as if it was a quality debt product. Then these faulty packages sold on Wall Street, and financial wizards found ways to leverage them enormously. Once defaults on the bad loans started to hit, the entire structure unraveled.

By contrast, at the present we are still under the Dodd-Frank Act, which was drafted after the 2008 recession. Borrowing is now much harder than it was before the 2008 recession. Even borrowers with great credit are finding the current loan processes frustrating. The amount of sub-prime loans is minuscule relative to the period preceding the 2008 recession, and steps were taken to make the abuses with rating agencies be much harder to repeat. Thus the next recession is likely not to be caused by bad loans. It is clear that if another recession comes, its effects on rental home investing will be quite different than the recession of 2008.

I believe that the best way to invest in real estate is to buy brand new homes, in affordable large metropolitan areas, where the rent numbers match well with prices, then finance the homes with fixed-rate loans. To the best of my knowledge long term fixed rate loans, like we get here in the US, don't exist elsewhere. The monthly payment and the mortgage balance never change with the cost of living, while everything else does. That means inflation constantly erodes the true buying buyer of your debt, making your debt ever smaller in real dollars.

For these kinds of homes, purchased anywhere from $150K to $250K, I believe the effects of the next recession will be minimal. Rates are very low, however, so fixed rate loans will retain these great rates forever.

The act of buying good rental homes in large metro areas and holding them as rental for the long term, where the loan erodes, is a future-changer. It does not change your future instantly or even within a short time, but over the long term, this strategy is a powerful future changer. I have seen people retire well, send kids to college, and look much stronger financially thanks to these simple yet powerful investments.

Since these investments show their power over the long term, and since the interest rates are so favorable now, and since a possible impending recession is unlikely to have effects on prices like the 2008 recession, I believe this would be a good time to invest.

As an extra "bonus", the virus fear creates more flexibility with sellers, including builders, and the ability to negotiate better prices.

I would be happy to discuss it with anyone who may wish to inquire further.

CREDIT SCORING MODELS & FINANCIAL GOALS

A credit score is a number that ranks a consumer's credit risk based on a statistical evaluation of information in the consumer's credit file, information that has been proven to predict loan performance. In layman's terms, a credit score is simply a number that represents the risk that you will default on a loan, using your prior payment history as a benchmark.

Each mathematical algorithm used to calculate credit scores is unique. For example, if your goal is to purchase a new home, then your credit restoration plan should focus on improving your FICO score, the score used by mortgage lenders.

The overview presented here introduces the factors that contribute to the FICO score.

With all the different kinds of information that credit scoring models incorporate, numerous tactics for improving scores are available. However, any action to improve a score must be taken judiciously: some actions aimed at improving your score may in fact make it worse.

Many individuals reap significant benefits by properly employing simple FICO score improvement techniques such as: making all payments on time, especially to installment and revolving accounts, as these report to the credit bureaus on a monthly basis. Do not apply for new credit cards or loans. Pay credit card balances down to 30% or less of your credit limit and make sure your credit card company reports a limit. Keep 3-5 open and active accounts in good standing on your credit report and be sure to review your credit report on an annual basis.

50 years ago, the median home price was $20,000, today its $420,000, and assuming the same rate of inflation 50 years from now the median home price will be $4.6 million. One can't guarantee much in life, but we can guarantee inflation over time and along with it, certain asset appreciations, like a home. It has always occurred over an extended period of time and it always will. We can also guarantee you that your creditors will continue to charge you more for the same thing as long as your scores are lower than the best out there.

How much does your credit score really cost you? Regardless of what rates are, these general rules typically apply. For the most part, the lower your credit score the higher your interest rate will be on your mortgage.

Check this fun math out, the difference between a 639 and a 700 (which really isn't much) over the life of this loan is about $87,612 in interest. Then, add in all your auto loans, credit cards, auto insurance, PMI and bank loans, who really blast you with higher interest rates over that same 30 years, and this could easily equate to $200,000 or a lot more. Now you are looking at an additional 300K in interest over 30 years. Now look at this gem, you have a staggering $200,000 less to invest over 30 years…a massive opportunity lost (something nightmares are made of). Conservatively, you could earn $400,000 with that money over that time frame. Add that to the amount you paid in additional interest in the first place and slightly lower credit scores over just 30 years could cost you well over HALF OF A MILLION DOLLARS. If you earn more than the average wage of 70K a year, after tax, it would take you 10 years of work to make up the difference… Isn't it worth getting your credit scores up?

JOE MERANTE
Regional Director of California, Continental Credit

Time to buy RALEIGH-CARY

By Tonya Debnam

Many investors may be asking, Is this still a good time to invest in the Raleigh-Cary MSA? The answer is YES! Our experience in recovering from economic crisis has been tremendous growth. Relocators come to our area for jobs in one of our three main economic drivers Technology, Medicine and Education.

This MSA offers rare opportunities for real estate investors to experience appreciation and stability in an area of extraordinary growth.

The "sweet spot" in our market is Clayton, NC. Clayton is 18 miles from the heart of Raleigh and is a community experiencing strong economic growth, where homes are still modestly priced and there is a strong demand for housing.

It is also an exciting time for growth in Clayton. The Novo Nordisk pharmaceutical plant will complete their $2 Billion expansion in 2020 doubling the size of their facility and Grifols pharmaceuticals announced a $210M expansion to be completed in 2022. Between the Grifols and Novo Nordisk, there will be over 3,000 pharmaceutical-related jobs in a town of 21,500 people!

Raleigh was listed as one of the "Best Places to Live" by Money 2018 and #2 on the 2018 Marketwatch Top 10 Cities for Economic Growth.

Job growth over the next 10 years is predicted to be 42.66%, so it's no wonder that the Raleigh-Cary MSA is projected to be the fastest-growing market in the U.S. over the coming decade.

Invest where you would want to live. Invest in the Research Triangle MSA.

Retirement Riches Testimonials

I bought homes with ICG in the beginning of the 2000's. I bought in Austin when it made sense, as well as in Tulsa. I also bought a home in Phoenix later, which is now worth 2.5 times what I paid for it. I did very well. Thank you.

— TED

I just put down payments on 2 Orlando homes and a duplex in Oklahoma City. So excited to move forward.

— MARK

I have purchased quite a few properties through your service over the years. Thank you! With the Corona virus scare, I am glad that most of my money is not in the stock market.

— TOM

VACATION RENTALS: RISKY

Over the years, I always hear from investors who want to buy vacation rentals.

The plan is to use the vacation rental by the investors when they take a vacation. During the rest of the year, the investors plans to rent the vacation rental either via Airbnb, or another one of these services, or via a central management entity which operates like a hotel.

I always remind investors that vacation rentals are a risky proposition. When a recession comes, one of the first things to vanish is travel and leisure. Vacations essentially disappear. We have seen it in every recession to date.

Currently, vacations and travel have disappeared due to the Coronavirus-related restrictions.

Vacation rentals are far riskier than regular single-family homes in large metropolitan areas. When we buy single family homes in large metropolitan areas, our tenants would likely be families with kids. They need a place to live and it is not seasonal. It is their home.

The stability that single-family homes in large metropolitan areas have is far greater than vacation rentals. Vacation rental can also see large price drops during times of crisis.

As for the idea that you use the unit a couple of weeks a year when you want to take your own vacation, it would be far cheaper to simply rent a nice unit for your vacation, or stay in a nice hotel. This also gives you far greater geographic flexibility to change up your vacation.

I would not advise buying vacation rentals at any time, as they are much more susceptible to crises than regular homes.

OUR MAY 16TH 1-DAY EXPO WILL BE ONLINE! VISIT ICGRE.COM/EVENTS FOR INFORMATION!