



**From George F. Allen's Community-Investor.com post**

**December 12, 2010**

**And, 'He-r-e's Grayson & Friends;...**

**MHPProNews note: quoting Allen's blog should not be construed as an endorsement of Allen or his 'reporting.'**

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Two weeks ago, in the blog posting titled, 'Whose Responsibility is Housing Affordability?', reference was made to Gary W. Pomeroy's 1970s classic text, *How to Successfully Sell New and Resale Manufactured Homes*. In that book, the author wrote about Grayson Schwepfinger's 'use of a rather unique system of qualifying the customer' by 'locking all the homes on a sales center...forcing prospects to come to the office', where they are pre – qualified by Urgency, Income & Need before seeing any homes.' (p.26). Well, how'd you like to read more of Schwep's wisdom on the subject? He sent me the following lengthy email message on 1 December; so, here're some rare gems (lightly edited) right from that ol (manufactured housing sales) warhorse's pen...

'First off, you mentioned very few salespeople really look at whether the customer can truly afford the home they are being sold. Well, one of our clients, New Jersey – domiciled REIT, UMH Properties, pulls a credit report on every prospective homebuyer, and not only confirms their ability to buy, but also does a character check to ensure they are indeed the quality potential resident they're looking for. If the prospect doesn't pass both tests, they instruct the salesperson to refuse the offer to purchase the home.'

'You described one way (Use of the new 'Ah Ha! & Uh Oh!' worksheet) to calculate 'affordable' and 'risky' price points for new and resale homes. Well, 40 years ago, I went to the chattel lenders and asked how they computed whether or not a customer can afford to purchase a home. They showed me a form they used – and continue to use to this day. First, they take all the monthly income the prospect is making. This includes any standard job income, plus any other additional income that is long – lasting and received on a monthly basis, such as child support. In most areas, they figure the total commitment to monthly payments should not exceed 40% of this monthly total, then subtract all the current monthly debts (e.g. furniture, credit card, car payments, and homesite rental fee) from that amount. The amount left is what lenders will allow the homebuyer to spend

(invest) in monthly housing payments. For example: \$3,000.00 income/month X 40% = \$1,200.00 (-) \$633+/- (for car, credit card, rent, etc. payments) = \$567.00/month available for P&I (principal & interest) payments on home mortgage.'

GFA Note. But 'here's a potential rub'. The above calculation, if still the manner in which some, if not all, third party lenders estimate how much monthly P&I payment a new homebuyer can afford, they may be unintentionally setting borrowers up for unexpected and undue economic pressure, if not ultimate failure. How so? Nowhere in this methodology, that I've seen, are escrowed T&I (taxes & insurance) and monthly household utility expenses, not including telephone expenses, included in the overall housing expense proposition! Frankly, 'if included', the \$567.00/month P&I mortgage payment estimate would necessarily be reduced to something in the neighborhood of \$342.00., in order for the PITI mortgage payment and household expenses, to be indeed be 'affordable', rather than inherently 'risky'! This is the same dynamic, oft ignored, difference between 'affordable' & 'risky' monthly housing payments, the new 'Ah Ha! & Uh Oh! worksheet clearly demonstrates. \*2

Grayson continues. Once home buying prospect is qualified, 'what I do is show them what the lender will allow them to spend on a new home, e.g. \$567.00. Then I ask how much of that amount they would be willing to invest each month. So, I now have identified not only what they are able to pay, but also what they are willing to pay. By doing it this way, I don't get their ego in the way. What I mean is, suppose I early on, ask how much they want to pay by the month, and they tell me they would go as high as \$600.00/month. If I now sell them a home for \$600.00/month, then turn the agreement in to the lender for approval, it's going to be turned down, since it's over the calculated limit. I now have two problems. First, the deal has been turned down. Second, is having to go back to the prospect, and tell them they are not approved for anything over maybe \$500.00. At this point, I stand a good chance of their ego getting in the way, and they tell me the lender doesn't know what they're talking about. So, they leave my sales center or LLCCommunity in a huff, go to another sales outlet, and begin by telling them not to show them anything that costs more than \$500.00/month.'

Schwep NOTES. If you'd like FREE copies (one blank & one filled – in sample) of the form Grayson developed, over the years, to apply the above – described income qualification methodology, simply email your request to [schwep1@aol.com](mailto:schwep1@aol.com) And, given the present day finance regulatory climate, ensure your on – site staff is appropriately trained and licensed. For information on this subject, phone Schwep @ (610) 533-4969.

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