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Press Release

The COMpound Mortgage PrepaymentS (COMPS) is a rev-ed up lease to own system that pays down about 30% of the (sub-prime) real estate market. COMPS does this by splitting the bail-out between 8 industry players: feds, state, county, banks, mortgage holder, servicer, buyer, seller. Each of these players is asked to pitch in a small 2% to 3% of a properties value. These small contributions make it very affordable for each of these players. Once combined, however, it equals a whopping 30% of a properties total (inflated) value. This 30% pay-down represents the maximum properties have become too expensive for the market place to afford. Reducing these mortgages makes them affordable to owner/buyers once again.

The punch line is that all the outstanding subprime mortgages can now also be reset at 100% their original value for they now have buyers. A market need not sell 100% of their inventory to be a hot housing market. They need only sell as little as 25% of inventory to make it a booming market once again. We can now move this surplus 25% to 50% housing inventory.

This new found buying will in turn reset all the mortgage holdings piling up on Wall Street. Investment firms can once again find buyers for all their (sub-prime) real estate holdings. Banks and investment firms that have already written down billions from their mortgage holdings can recoup the full value of those losses. They get back more in lost value from their write downs then the money they put in towards this COMPS system. Their total contribution comes to \$14 billion over 2 years. This will cover all 2 million sub-prime mortgage holders. Wall Street has already written down \$35 to \$75 billion (depending upon who you ask) and maybe looking at up to \$200 billion in write downs before this is over. \$14 billion is more then made up in both the regained values of their write downs on top of the fees from trading all their real estate investment holdings once again.

The government will also recoup more in taxes then they put in to COMPS. This is not a bail out of Wall Street or home owners, but rather the 10% sponsorship that HUD was suppose to offer sub-prime mortgage holders in their government mandate anyway. COMPS will

cost the government little more than this HUD program but create new buyers and lenders that is otherwise missing from today's real estate process.

The home owner finally gets affordable monthly payments. Everyone gets more in return than they put in. Why? Because there is real value tied up in this real estate that has simply been locked away in the fear of an otherwise healthy market.

This is available for download on lulu.com search under:
Compound Mortgage.

The book is called **Compound Mortgage Prepayments: The Magic Bullet to tackling the Sub-Prime Crisis in 30 Days.**

Raghu aka John Giuffre has been a practicing Real Estate broker for 5 years and presently working with Mark David of NYC. Like many real estate brokers, Raghu has looked into a number of 'creative financing' options for clients over the years. Lease to Own purchases are one of the more common creative financing systems used outside bank loans. It was in playing with this model that he discovered the lease to own possibilities for the country's mounting real estate crisis. Realtors are used to working with people when banks don't. Today, we do it for the nation.

Article

COMPS: COmpound Mortgage PrepaymentS:

The Magic Bullet for the Sub-Prime Crisis - in 30 Days

By Raghu aka John Giuffre

(My editor and economist are both on vacation much like myself. As such, it would take another week or two to check the numbers, text and concept. However, I'm forwarding this unedited work against normal editorial protocol for a couple reasons.

First, we are losing billions daily as an ever growing number of home owners and their financial counter parts announce the dizzying array of bankruptcies. Time is of the essence.

Second, this is my Christmas Gift. This gift is the one thing missing from the entire housing crisis – a rallying point of possibilities against this growing financial fallout. In the spirit of Christmas, I present this to bloggers, journalist and economist to build upon as a gift of hope for it remains the only plan of action on the table right now.

This crisis is eclipsed by the fatalistic tone of this subprime meltdown. Christmas has a special magic and rare national solidarity. I offer this proposal in the glow of this Christmas magic to reintroduce that great entrepreneurial resourcefulness of the American spirit.)

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Most of us have heard of the-lease-to-own option offered for cheap properties and expensive cars. It is used thousands of times every day. We take this lease to own system, add in a few other features and a small 'bail out.' We then apply it like an auto lease to pay down today's over-inflated properties. This allows us to have a clearly defined, preset, 30% pay-down of today's real estate prices. This pay-down makes these properties affordable to most owners and buyers, yet the properties are still worth their original value. By resetting the property prices at 100% of their original value, we can finally thaw out the marketplace for Wall Streets' real estate holdings. Ta da, credit crunch solved.

Wall Street can now sell all their real estate investments portfolios. The (half) trillion dollars in related real estate investment holdings can once again find a market of investors for the first time in months.

How It Works

Here is how it works. In the case of an auto lease, the cost of a \$40,000 car is divided into two loans. The first loan is paid off over 4 years while the 2nd is put on hold until the first loan is repaid. The second loan is then refinanced for the original owner or a new buyer. The first owner has 'right of first refusal.' We would duplicate this process in our Compound Mortgage (Prepayment).

The Compound Mortgage Prepayment System

Breaking off the first loan from the total price is the inverse of compound interest. It compounds the rate of repayment of the mortgage. Hence, we call it COmpound Mortgage PrepaymentS (COMPS). Paying a large part of the principal enables the buyer to avoid much of the interest on the entire loan. In a traditional loan, the initial payments are almost entirely used to pay off interest, preventing the buyer from reducing the interest-generating principal. Most of us know the reason for this. The interest is paid on the front end of your payment schedule while the principal is paid on the back end. COMPS (much like the auto lease system) is just the opposite. The significant advantage of COMPS is that it enables the buyer to pay so much of the principal up front in the first loan. This greatly reduces interest on the total loan amount. In some cases, this can shave off 50% of the interest payments. (Depends upon the interest rate.) This is different than simply extending the life of the loan or even paying the loan down as we see in other bail out proposals. This prepayment advantage is the first feature of this auto lease system that we incorporated into COMPS.

Two Down Payments

The second feature of the auto lease method is the hefty down payment for both the first and second loan. This again further compounds the prepayment principle. Two down payments are more affordable than one. And often, it can also

prove more affordable then carrying over the difference into higher monthly payments. This “double down” pays off a greater portion of the principal so again shaving off more interest. These down payments multiply our payments much as compound interest multiplies our interest premiums. It is also the inverse of compound interest. Combining the dual loan and, “double down” payment method is the secret of the auto leases effectiveness. COMPS incorporates this secret for providing one of the fastest, affordable ways to pay off a loan. The method is proven, just never applied nationally. Today, we unleash this tried and true system for the rest of the real estate market.

Auto Lease Demo

Let's take the example of the \$40,000 car we mentioned above. This \$40,000 price is divided in half by the auto lease. Each loan is now just \$20,000. The 'first term' loan requires a \$7,500 down payment with a monthly of \$750. At the end of the 4 year lease, you have the option to buy the car or leave it with the seller. The seller then looks for another buyer. Whoever buys the car will again put a large \$7,500 down payment and also pay a monthly of \$750 over 5 years.

\$200,000 Home Demo

We would use much the same system for a house lease as we see for this car lease. The average price of the subprime mortgage holder stands at about \$200,000. COMPS would divide this loan in half to \$100,000 for each loan term. The first loan is paid off over 4 years at \$25,000 a year or \$2,100 a month before interest. However, if you put in a sizable down payment, you can cut this monthly payment by up to half. How can a distressed property owner afford this down payment? Here lies the 3rd part of our COMPS formula.

Down Payment: 4 Subsets

We divide this down payment (for this 1st Term \$100,000 loan) into 4 subsets paid between 8 different players.

The 4 Sub-sets:

- 1) The first portion of the down payment is paid by the government.**
- 2) The 2nd is paid by the bank – the mortgage holder**
- 3) The 3rd is paid by the buyer**
- 4) The 4th is paid by the seller.**

Down Payment: 8 Players

Each of these parties can pay varying amounts of this down payment but we offer a demonstration to what we think would be both fair and affordable for each party on this \$100,000 loan.

\$22,000 22% Gov't: 1/3 Feds, 1/3 State, 1/3 County - \$7,300 each

\$22,000 22% Banks: 1/4 Mortgage holder, 1/4 Servicing Agent, 1/5 Bank - 5,500 each

\$12,000 12% Buyer: 100%

\$6,000 6% Seller: 100%

\$62,000 62% Total Down

\$38,000 38% Loan

\$792 Monthly Mortgage before interest

Purchase: \$12,000 Down, \$792 a Month

This sizable down payment allows the buyer or home owner to (re) purchase this/their \$200,000 home for as little as \$12,000

down (6% of the total price or 12% of 1st loan)¹ and \$792 a month before interest. If the buyers' down payment is also financed, their monthly would be \$1,166 a month before interest.² You have now cut the cost of the mortgage payments by 30 to 50%. This cost reduction closes the gap between what owners can afford to pay against the cost of the home mortgage. You will have an explosion of new home purchases alongside all the service fees, taxes and industries generated by home sales. In short, we are NOT bailing out greedy Wall Street brokers or even foolish home owners, rather, we are empowering the next generation of buyers that will often prove to be the original owners.

1st Term: 4 Years; 2nd Term: 30

At the end of this 4 year term, the house is again sold for the remaining \$100,000 and packaged into a new 30 year loan. Here we find the 4th part of the COMPs program. We have extended the original 30 year loan term by another 4 years. This further reduces the monthly mortgage.³ We can require a down payment from this 2nd term loan, but that may also be included in the monthly mortgage when the buyer is the original owner of the property. Any new buyers would need a 10% to 15% down payment for the 2nd loan term.

Property Prices Fixed for Term

¹ 6% interest on a \$38,000 loan would run at around \$200 a month more.

² Sometimes, adding down payment into the monthly mortgage would prove too expensive for the home owner/buyer. In this case, the down could be transferred over into the 2nd term mortgage leaving the monthly closer to \$800 a month.

³ We can add an additional 4 year term as well. This would allow a greater pay down of the total loan from 30 years into 38 years. We could also divide the loan 3 ways rather than by just 2. The 1st term would then be a third rather than half the total as we have done here. The problem is that if the interest rate is too high on the remaining sum, it will still be too expensive to refinance in the 2nd term. So a \$200,000 home would have a 1st term of just \$66,000 rather than \$100,000. This would allow the government to pay down the bubble in 2 installments over 5 years. We find the present real estate bubble affordable enough to cut the loan by the whole 50% rather than simply a 1/3. It also means that we have just a onetime bail out rather than too. All the parties of today's real estate crisis are primed for action now. They may not be in 5 years from now so doing everything in a one shot pay down.

During the first term, the property cannot be refinanced and must be sold at the end of 4 years for nothing more but its remaining \$100,000 mortgage and any other accumulated interest charges, misc. expenses and taxes. Remember, it's just like a car lease. Only upon completing this 2nd purchase can the property be refinanced with a 2nd mortgage against its added value. This moratorium on 2nd mortgages will allow the market to stagger a whole segment of affordable homes. This will keep the market from over-heating again into a single, large bubble as we have now. There will always be a sector of affordable homes coming onto the market. Low income buyers, for example, can be offered first dibs on these homes. This could be HUDs' new low income housing program.

Contributions: Affordable & Profitable

Here we apply the old adage: Divide and conquer. The down payment is divided 4 ways between 8 different players making the cost almost incidental to each. In fact, it will cost most of these parties nothing. Most will actually make a tidy, instant profit.

Government: Instant Cash Back in Sales Tax

For the government, the cost of the down payment is divided between the Federal, state and county governments. In each case, they stand to be compensated in taxes from both the sale of the property in addition to the higher, on-going annual property taxes from both the house and the neighborhood.

3% Contribution from Each

We don't refinance the properties, but rather, it is like the car lease that represents an entirely new purchase. We structure this as a sale to side step the legal obligations/ complications of the old, outstanding mortgage contracts. Today's mortgage contracts present a potential legal problem to all the proposals being offered to this crisis. As a home sale, the legal issues are

resolved. Because it is a sale, government also gets instant cash back of up to 4% in sales tax.⁴ Yet, the government has only put in a total of 11% for the down payment. This comes to just \$22,000 against the full price of the \$200,000 home.⁵

State = Property Tax; Fed = Investment Tax

The county and state governments of course have a lot to gain from this. They receive the bulk of all property taxes - annually. They will recoup the full cost of their contribution by the 2nd to 4th year. The Fed recoups the full cost of their contributions as well. The Fed will receive a new wave of taxes from the sale of all these (sub-prime) mortgage holdings now sitting in the closets of investment bankers who presently have no buyers.

Recoup 1st Year for Every 75 Homes

Now contrast this against the lost for each of these government players if the market continues to slide. Every house on a block loses \$5,000 in value for every home placed into foreclosure. This means that a block of 75 homes will lose \$375,000 in assessed value for every home placed into foreclosure. That comes to \$3,500 a year in lost taxes at a 1% property tax rate. The state and county governments will recoup their entire contribution by the second year in added tax revenues for each home they save from every lot of 75 houses. This is before we include the sales tax. The sales tax could allow the state to recoup its contributions within the first year – depending upon tax rates. The more properties they sponsors, the more government makes in tax revenue. Rarely can government find this ease of return or fast turn around.

⁴ The sales tax is for the entire price of \$200,000. The 1st term mortgage includes the sales tax for the 1st \$100,000. The tax on the remainder is carried over to the 2nd term w/interest.

⁵ This is 11% against the full price of the \$200,000 home or 22% against the 1st term loan of \$100,000. Of this 11%, each division of government pays little more than 3% of the property's value. Each would potentially get back about a third of their contribution upon the sales completion.

Banks: Write Offs Reset @ Original Value

The Compound Mortgage provides the single most important factor missing from all the other proposals to this subprime mortgage crisis. Banks will finally be able to quantify the full length and breadth of all their investments and do so at their original value.

Reinstating \$75 Billion in Write Downs

Banks and investment brokerages have the most to gain here. They have up to \$35 (to \$75) Billion already 'written down' off their books. This could reach into \$200 billion. With COMPS, the entire write off is now reinstated back to its original value. All outstanding real estate loans can now be calculated at their full price. COMPS makes real estate affordable again and so finding buyers for today's distressed properties.

Selling 30% Recreates 100% of Market Value

We don't have to sell 100% of all properties to re-establish a market's original value. You only need to sell say 30% of all available properties in order to re-activate a hot market. Let's say a city has 15% of its properties in foreclosure or 'for sale.' They only need to sell (say) 45% of that housing inventory to jump start their market again. This would leave the city with a housing availability of just 7%. Even neighborhoods with a 70% foreclosure rate only need to move 45% of that inventory to restart the neighborhood again. The great advantage of foreclosed properties is that most of them have corresponding owners that want those homes back and could afford them if they were indeed 30% less. COMPS is not bailing out those owners so much as creating a new class of both buyers and lenders. Buyers & lenders are the 2 players missing from this real estate melt down. We recreate both in one fell swoop that is simple, affordable and fast.

Leveraged Problem Solved

The reason the market has been so spooked by this crisis is that they can't fully identify the mortgage liabilities lurking among the financial institutions that carry these subprime and other real estate related risks. This leaves firms blind in figuring the value of their investment holdings. What is commonly referred to as hedge funds or exotic investments is generally a fluffy way of talking about different investment sectors that have been sliced and diced and then repackaged into an ever growing number of combinations: 1 part subprime, 1 part blue chip, 1 part foreign investments, etc. Figuring the ratio of subprime from the mix of these other holdings is the first hurdle in assessing the investments value. Figuring the value of the subprime/real estate portion then becomes the 2nd problem. The result is a leveraged problem.

Inverse of Market Bubble

A billion dollar investment package with as little as 10% in subprime mortgage holdings leaves the entire \$1 billion investment in question. Because this entire billion dollar investment cannot be clearly appraised, it cannot be sold. Buyers can't be certain of its real market value. This originally forced banks to sell off a billion dollar package of their best assets to raise the needed liquidity for this now compromised \$1 billion package with the real estate holdings. Many of Wall Street's best stocks then flooded the market thereby driving down the value of our best stocks as well. Put more simply, as little as 5% of their total investment holdings of sub-prime real estate compromised 95% of related markets worth.

Quantify Consumer vs. Wall Street

A far more easy way to quantify this problem would be to look at this issue from the consumer's side or from the home buyer's themselves. It is simply too complicated to try and figure our or bail out this problem from Wall Streets side. Wall Street is of course ego centric, but now, we have a government that has left most of its economic policy to Wall Street 'specialists.' As such, all of today's proposals have been based from this obsession of the

financial institutions well being rather than looking at things from the peoples (home owners) side of the equation. In turn, all of Wall Street's experts have missed the ease of tackling this problem once approached from the public's perspective. It's a perfect example of ivory tower policy over government by the people.

Reset \$100 Million, Unleash \$2 Billion

To recap, we are compromising the actual value of the first \$1 billion dollar package because of its \$100 million in real estate mortgages. This forced the fire sale of the second \$1 billion dollar package with no real estate holdings and so compromising its value as well. COMPS potentially resets this entire \$2 billion worth of investments back to its original value. The \$100 million in real estate holdings is re-instated to its full value. This resets the \$1 billion package holding these mortgages. This will then allow banks to balance their portfolios with other stocks that were previously sold off and so driving up their values once again too.

Market Presently Undervalued

Today's market implosion is the inverse of a market bubble. There is greater value in today's market than otherwise represented in the stock prices. This value will be unleashed once we have reset our mortgage holdings back to their full value. This could unleash up to \$2 trillion in new trading activity. This is before we include the dollar's drop and the other ramifications of this crisis of confidence.

Recoup Summers Full Value + New Taxes & Service Fees

The great news: the stock market can regain the entire loss it experienced since its summer slide. Not only can Wall Street take back all this lost value, but it will generate a tsunami of service and commission fees in this new round of trading. This is before we talk of higher interest rates that banks can also begin to charge again. And who will be there to collect from each of

these transactions? Uncle Sam. Yeap, the Feds will take back many times more than they will put into revving up the markets again. We will have jumped started real estate's financial eco system.

The more the Feds put in, the more they get back. It's rare for Washington to see this direct and immediate back wash of tax revenue for investments made by the government. The speed of return is simple to explain. They don't need to create anything new; rather, the government only need unleash the value tied up in real estate and associated investments.

Government: \$4 Million to Unleash \$2 Billion in Trades

We can understand the multiple of the Feds returns by looking at our \$2 billion example above. Of this \$2 billion, the real estate holdings were just \$100 million. The Fed is only contributing 4% (\$4 million) to this \$100 million, but collects taxes on the entire \$2 billion worth of these investments that will now be bought and sold. It is on this entire \$2 billion sum that Uncle Sam collects his tax fees. The fed makes \$20 million at an averages tax of just 1% on this \$2 billion. However, this does account for how many times this \$2 billion will finally be traded providing a potential tax from each transaction. It's therefore hard to estimate the full amount the fed will make from this small contribution. We do know the fed makes more having these investments trading then not. This is not so much a bail out of Wall Street, but more a bail out of Washington's own faltering economic performance. Washing can finally help pry open the lost treasures of the American real estate market that was created by Wall Street's sponsor of it. The Fed can do this by simply coordinating the different industry parties. Playing general coordinator is a far more legitimate role for government then lone task master to just one of these many players whether it be a bail out of Wall Street or home owner. With COMPS, the government is not bailing out an special interest party, but rather an entire industry.

Investors: 2% pay down against 13% loss

This brings us to the investors holding these loans and those servicing them. They each contribute about 2% of the loans total value towards the down payment.⁶ The incentive for them should be obvious. The investors are the primary party being bailed out by everyone else. They access this nearly 30% of contributions towards their loans in exchange for their small 2% contribution to this process. Investors' holding today's troubled real estate loans are now estimated to be looking at loses reaching 10% to 13%. These calculations are based upon today's assessments which maybe as under stated as the predictions made 2 to 3 months ago. We can only hope that they will only lose 13% in today's crisis. It could very well be more if things continue to worsen.

The Compound Mortgage will set their loss at a fixed 2%. This amount is almost incidental and very affordable. For this 2%, they get back 98% of their investment -instantly. Better yet, they get to move their investments verses those now stuck with the prospect of having them tied up in defaults or losing them altogether. And they can also finance the new loans to their old clients without the risk they face today. They can also charge better interest rates. The host of new fees offers the banks servicing these loans a similar degree of returns and ease over the multiplying troubles they face today.

Buyer: 6% Down

This leaves us with the buyer and seller. For the buyer, they should be able to provide a small 6% down for their purchase. It is hard to find a more favorable term. However, when the owner is going to repurchase their own home, they can have this down payment added into the monthly mortgage payments – if they do not have the money to put towards this purchase. If this makes the monthly mortgage payment too expensive for them, they can have the down deferred to the 2nd term loan as well.

Seller: \$125 a Month, No Liability

⁶ This 2% is representative of the entire sum of \$200,000, but it represents closer to 5% of the 1st Terms loan of \$100,000.

The Seller should also be left with some small price to pay. We suggest a 6% contribution by the seller.⁷ If they cannot afford this sum, they will also take out a loan to make this contribution. This will leave the seller with a small \$125 a month (before interest) payment. This is paid off in just for 4 years. For this small contribution, the seller walks away from their property with their credit intact. It's a small price to pay for the option to walk without further liability. Today's foreclosure leaves its victims economically hobbled for years if not decades. In contrast, COMPS offers a small, affordable, short term fee to pay. However, when the seller is also the buyer, this price is also added onto the new mortgage. The total monthly mortgage will then be \$1,170 before interest. The home owner knows that they need only pay this mortgage for just 4 years for after that, their 2nd term loan will run about \$700 a month.

Gov't Costs: \$7 Billion for 2 Years

The total cost to the Feds, State(s) & County(s) would come to a onetime charge of \$14 billion each for a total of \$44 billion. This represents 11% against the total \$400 billion outstanding in the subprime mortgage market. This is calculated for 2 million homes at a price of \$200,000 divided into 2 terms of a \$100,000 each with a 22% down payment for the 1st term. This would be divided up over 2 years so reducing this cost to each government sector to just \$7 billion a year. This is less then we see HUD spending today to help subprime buyers purchase a home. COMPS may offer HUD a whole new system for financing their low income buyers. Using HUD funds for this means COMPS would not even require any additional cost from the federal budget.

Banks: \$7 Billion to Recoup \$75 Billion + Trading Fees

Banks would provide about \$14 billion over 2 years. The banks that have written down \$75 billion worth of subprime mortgage holdings should be the ones most interested in

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This is 6% against the loan of \$100,000 of the 1st Term but only 3% against the total \$200,000 loan of the home.

providing this 'bail out.' They put in this \$14 billion over 2 years, (\$7 billion a year) and they get back the full \$75 billion value of these subprime mortgage holdings in the first month. The banks stand to make the same kind of multiple in returns as the feds because it's this 5% of their holdings that have compromised 95% of their associated stocks.

Banks get two benefits. 1) They reinstate the full value of the mortgage holdings. 2) They get to trade these investments again and do so potentially dozens of times more. They make profit and service fees off each of these transactions much like the Fed does. However, banks make more per trade than the government. They therefore have more incentive to provide these funds than the government.

Wall Street's Bail Out of HUD

This leaves us with the final and most difficult bridge to cross. That is the political bridge of recrimination, hypocrisy and inertia. Having Washington call such measures a bailout of Wall Street is to overlook Wall Street's bail out of Washington's mandate to provide home ownership to this class of subprime buyers in the first place. Wall Street managed to get these economically handicapped buyers into homes in under 4 years when all of government failed to do so in 40. I sense that Wall Street did this for as little as 10% the price of government's programs like HUD. If Wall Street did in fact accomplish this for less, the final hypocrisy would be having politicians calling Wall Street greedy. When government spends so much more to perform the same task, somehow it is not viewed as greedy. Hmmm.

Not only did Wall Street do this faster, for less, but they reached a far greater market penetration of this handicapped buyers market. Leave it to politicians to overlook this daunting success that far exceeded their own efforts. They instead turn around and point fingers. The government stands proudly against the calls for help when the market has now reached its own limitations of this grand success. COMPS is not a bail out for Wall Street, but the final step of this needed help for these subprime

mortgage holders. Again, these subprime holders are the very people government was suppose to help in the first place, but was too slow to do so. It seems odd how government is an all or nothing button. They either take on the entire project or blame others for failing when they try. COMPS can mediate this (in) balance of government action.

There is no other proposal that offers to resolve this crisis so promptly, completely and most of all - affordably. Yes, this program cost much less than most anything else being considered and certainly less then what it's costing all of us right now. We do this by uniting all the players of the industry into a partnership wherein each makes but a small contribution to create a sizable difference for everyone. This is the model of governance of the 21st Century. Welcome to the Compound Mortgage Prepayment system.

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Compound Mortgage:
***Subprime Mortgage Crisis Made Quantifiable,
Containable & Affordable***

Press Release

The COMpound Mortgage PrepaymentS (COMPS) is a rev-ed up (auto) lease to own system combined with a large bail out that pays down about 30% of the (sub-prime) real estate market. COMPS's is more than just a new mortgage system. COMPS is an entire program specifically tailored to the sub-prime crisis. COMPS offers the 3 essential components missing from meeting this financial challenge:

- 1) Quantifiability
- 2) Containability
- 3) Affordability

Quantifiability

The COMPS program simply needs the total of any given sum of a subprime mortgage holding to quantify our response. Wall Street has obscured how much of these investments they are actually holding at any given time leaving the only other reliable measure coming directly from home owners. There are now an immediate 2 million subprime mortgage holders at an average home value of \$200,000 for a total of \$400 billion in outstanding subprime mortgage holdings. These

mortgages stand at about 20% more than what owners and buyers can afford.

The COMPS answer is relatively simply and straight forward. Pay-down this 20% and you make these homes affordable again. The subprime crisis has the upshot of having a dedicated buyer for most every one of these properties. This was not true of other past real estate bubbles. These owners are simply coming up about 20% short for meeting their mortgage obligation. Paying down this 20% will cost \$80 billion. In short, we don't have a \$400 billion problem, we have an \$80 billion dollar problem. Problem quantified.

Containability

If we lose these home owners, we have more than just an \$80 billion dollar tab. In fact, it becomes even more than a \$400 billion dollar crisis. Lose these home owners and we face a real and complete melt down that will impact up to 5 times this \$400 billion. First, we potentially lose 100% of a property's value versus the 20% tab we propose. The problem is further expanded as it spills over into their neighbors. Entire neighborhoods are then interrupted in both price and community stability. This \$80 billion commitment can contain this real estate interruption from unraveling into a \$1 trillion to \$2 trillion dollar real estate meltdown. It's 'the ounce of prevention for the pound of cure.' Act now and respond at the source – the home owner, and the problem is contained. The longer we wait, the more home owners we lose thereby multiplying the liability.

The real estate melt down represents only the first half of this crisis. The wave of real estate foreclosures is further magnified on Wall Street. Wall Street can't quantify its subprime mortgage holdings in either volume or value. This valuation problem is something of a historic first and therefore leaving the calculated problems open ended. This in turn leaves investors wondering where or how much risks they are exposed to in taking on a package with even a small amount in subprime holdings. Investors will avoid a billion dollar package, for example, if it has just 10% (or \$100 million) in subprime mortgage holdings. This leaves the entire \$1 billion without a market though the subprime represents just 10% of its total value. The COMPS program

can quantify that this \$100 million only need \$20 million to reset the entire \$1 billion package as a risk free investment.

This \$20 million represents a mere 2% of this billion dollar package but allows the entire package to be sold. In short, this 2% has a leveraged return on the entire \$1 billion much as it holds a leveraged liability against it. This 2% represents the fees Wall Street would charge in selling this package. Simply put, this sum is easily recouped once we restart this market again.

Time of course is of the essence. Lose this home owner and you lose some or much of this entire \$1 billion package's ability to sell along with the neighborhood from which the home owner comes. The home owner is the linchpin from which this entire crisis hangs – OR FALLS. Wall Street is not. Oddly, all of today's responses are for Wall Street's bail out. Bailing out Wall Street is the most expensive approach to the problem because you will have to pay 100% of the properties lost value rather than just 20%.

By contrast, save the home owner for less and you save the entire system from home and neighborhood right on through to local and state governments all the way up to Wall Street and the global economy itself. Lose this home owner and everyone loses all the way down the line. Today, we see the paradigm turned upside down wherein the top of the financial pyramid is not Wall Street, but the small, every day American Family. It's not a bail out of the home owner or Wall Street. We are simply lubricating the entire system to jump start this economic engine for what is proving to impact a large swath of the global economy beginning with America's. Today, the fate of the world lies in the home of America's poor, home owner. A fitting sense of justice for this Christmas season indeed.

Affordability

With COMPS, we now know we have an \$80 billion dollar problem. Without this COMPS reform, this could become up to a \$2 trillion dollar economic unraveling – or more. COMPS takes this \$80 billion and divvies it up between 8 industry players: feds, state, county,

banks, mortgage holder, servicer, buyer, seller. Each of these players is asked to pitch in a small 2% to 3% of a properties value. These small contributions make it very affordable for each of these players. Once combined, however, it equals a whopping 20% of a properties total (inflated) value.

The COMPS mortgage system itself provides 10% to 20% in additional savings providing a total of 30% in contributions to our home owner. The COMPS system is especially suited to simplify and magnify this bail out with its 2 term loan and double down payments as we explained later. This 30% represents the maximum that today's properties have become too expensive for the market place to afford. Reducing these mortgages makes them affordable to owner/buyers once again. We will once again have a real estate market humming along.

Government: \$40 Billion; Feds & State \$20 Billion Each

We take this \$80 billion and cut it down the middle. \$40 billion goes to the government and the other \$40 billion goes to Wall Street. The feds take over \$20 billion of this \$40 billion. This comes to just \$10,000 per home owner or 5% of the \$200,000 home. This \$20 billion is divided over the next 2 to 3 years or \$7 billion a year. 3 years is the estimated time frame subprime owners are expected to their have mortgages reset into higher fees or face other financial challenges.

We are looking at the federal governments Housing & Urban Development program for these funds. This \$7 billion could come from HUD's \$36 billion a year budget. Doing so means COMPS would require no extra budgetary funding from the feds to meet their share of this effort. Note that these are the same subprime home owners that HUD was mandated to help with things like their 10% for down payments anyway. COMPS now ask HUD to offer just 5% or half of what they should have provided these subprime buyers before. HUD should find this onetime \$10,000 pay out far more affordable then providing these same home owners with an entirely new place to live once they are homeless due to foreclosure. State and local governments take over the remaining \$20 billion of this tab or \$10

billion each over the same 3 year period. They will make this all back in new or higher property taxes.

This brings us to the most novel aspect of all. The remaining \$40 billion is divided between banks, mortgage holders & loan servicers, home owners & buyers. Banks will provide \$20 billion of this tab which also comes to \$7 billion a year over the next 3 years. For this \$7 billion, the '\$100 billion in losses or write-offs at the world's largest financial institutions' (reported in the Sunday, Dec. 30th, NY Times) is reset at or near its original value. These banks put in this \$20 billion and get back most if not all their \$100 billion in (paper) write offs. This does not include the additional \$100 billion or more now expected to have to also be written down over the coming months and years.

The punch line is that all the outstanding subprime mortgages can now also be reset at or near 100% their original value for they now have buyers. A market need not sell 100% of their inventory to create a hot housing market. They need only sell as little as 25% of its inventory to make it a booming market once again. COMPS will help move this surplus 25% to 50% in housing inventory by taking these subprime properties off the market.

This new found buying/refinancing will reset all the mortgage holdings piling up in Wall Street's portfolios. Investment firms can once again find buyers for their (sub-prime) real estate holdings. Banks and investment firms that have already written down billions from their mortgage holdings can recoup the full value of those losses. The \$20 billion is more than made up in recovered values of their \$100 billion in write downs on top of the fees from all the new trading on their real estate investment holdings.

Local, state and federal governments also recoup more in taxes than they contribute. COMPS will cost the feds little more than a small sum from this HUD program but create a whole new generation of buyers and lenders that is otherwise missing from today's real estate process.

The home owner finally gets affordable monthly payments. Everyone gets more in return then they put it. Why? Because there is greater value tied up in this real estate sector than we are putting in. It has simply been locked away in the fear of an otherwise fair if not healthy market.

You can read this in full on our wesite: roopa.org. This is also available for download on **lulu.com** (or google) search under: **Compound Mortgage.**

The book is called Compound Mortgage: Subprime Mortgage Crisis Made Quantifiable, Containable & Affordable

Raghu aka John Giuffre has been a practicing Real Estate broker for 5 years and presently working with Mark David of NYC. Like many real estate brokers, Raghu has looked into a number of 'creative financing' options for clients over the years. Lease to Own purchases are one of the more common creative financing system used outside bank loans. It was in playing with this model that he discovered the lease to own possibilities for the country's mounting real estate crisis. Realtors are use to working with people when banks don't. Today, we do it for the nation.

Article

COMPS: COmpound Mortgage PrepaymentS:

The Magic Bullet for the Sub-Prime Crisis - in 30 Days

By Raghu aka John Giuffre

(My editor and economist are both on vacation much like myself. As such, it would take another week or two to check the numbers, text and concept. However, I'm forwarding this unedited work against normal editorial protocol for a couple reasons.

First, we are losing billions daily as an ever growing number of home owners and their financial counter parts announce the dizzying array of bankruptcies. Time is of the essence.

Second, this is my Christmas Gift. This gift is the one thing missing from the entire housing crisis – a rallying point of possibilities against this growing financial fallout. In the spirit of Christmas, I present this to bloggers, journalist and economist to build upon as a gift of hope for it remains the only plan of action on the table right now.

This crisis is eclipsed by the fatalistic tone of this subprime meltdown. Christmas has a special magic and rare national solidarity. I offer this proposal in the glow of this Christmas magic to reintroduce that great entrepreneurial resourcefulness of the American spirit.)

• * *

Most of us have heard of the-lease-to-own option offered for cheap properties and expensive cars. It is used thousands of times every day. We take this lease to own system, add in a few other features and a small 'bail out.' We then apply it like an auto lease to pay down today's over-inflated properties. This allows us to have a clearly defined, preset, 30% pay-down of today's real estate prices. This pay-down makes these properties affordable to most owners and buyers, yet the properties are still worth their original value. By resetting the property prices at 100% of their original value, we can finally thaw out the marketplace for Wall Streets' real estate holdings. Ta da, credit crunch solved.

Wall Street can now sell all their real estate investments portfolios. The (half) trillion dollars in related real estate investment holdings can once again find a market of investors for the first time in months.

How It Works

Here is how it works. In the case of an auto lease, the cost of a \$40,000 car is divided into two loans. The first loan is paid off over 4 years while the 2nd is put on hold until the first loan is repaid. The second loan is then refinanced for the original owner or a new buyer. The first owner has 'right of first refusal.' We would duplicate this process in our Compound Mortgage (Prepayment).

The Compound Mortgage Prepayment System

Breaking off the first loan from the total price is the inverse of compound interest. It compounds the rate of repayment of the mortgage. Hence, we call it COmpound Mortgage PrepaymentS (COMPS). Paying a large part of the principal enables the buyer to avoid much of the interest on the entire loan. In a traditional loan, the initial payments are almost entirely used to pay off interest, preventing the buyer from reducing the interest-generating principal. Most of us know the reason for this. The interest is paid on the front end of your payment schedule while the principal is paid on the back end. COMPS (much like the auto lease system) is just the opposite. The significant advantage of COMPS is that it enables the buyer to pay so much of the principal up front in the first loan. This greatly reduces interest on the total loan amount. In some cases, this can shave off 50% of the interest payments. (Depends upon the interest rate.) This is different than simply extending the life of the loan or even paying the loan down as we see in other bail out proposals. This prepayment advantage is the first feature of this auto lease system that we incorporated into COMPS.

Two Down Payments

The second feature of the auto lease method is the hefty down payment for both the first and second loan. This again further compounds the prepayment principle. Two down payments are more affordable than one. And often, it can also

prove more affordable then carrying over the difference into higher monthly payments. This “double down” pays off a greater portion of the principal so again shaving off more interest. These down payments multiply our payments much as compound interest multiplies our interest premiums. It is also the inverse of compound interest. Combining the dual loan and, “double down” payment method is the secret of the auto leases effectiveness. COMPS incorporates this secret for providing one of the fastest, affordable ways to pay off a loan. The method is proven, just never applied nationally. Today, we unleash this tried and true system for the rest of the real estate market.

Auto Lease Demo

Let's take the example of the \$40,000 car we mentioned above. This \$40,000 price is divided in half by the auto lease. Each loan is now just \$20,000. The 'first term' loan requires a \$7,500 down payment with a monthly of \$750. At the end of the 4 year lease, you have the option to buy the car or leave it with the seller. The seller then looks for another buyer. Whoever buys the car will again put a large \$7,500 down payment and also pay a monthly of \$750 over 5 years.

\$200,000 Home Demo

We would use much the same system for a house lease as we see for this car lease. The average price of the subprime mortgage holder stands at about \$200,000. COMPS would divide this loan in half to \$100,000 for each loan term. The first loan is paid off over 4 years at \$25,000 a year or \$2,100 a month before interest. However, if you put in a sizable down payment, you can cut this monthly payment by up to half. How can a distressed property owner afford this down payment? Here lies the 3rd part of our COMPS formula.

Down Payment: 4 Subsets

We divide this down payment (for this 1st Term \$100,000 loan) into 4 subsets paid between 8 different players.

The 4 Sub-sets:

- 1) The first portion of the down payment is paid by the government.**
- 2) The 2nd is paid by the bank – the mortgage holder**
- 3) The 3rd is paid by the buyer**
- 4) The 4th is paid by the seller.**

Down Payment: 8 Players

Each of these parties can pay varying amounts of this down payment but we offer a demonstration to what we think would be both fair and affordable for each party on this \$100,000 loan.

\$22,000	22%	Gov't: 1/3 Feds, 1/3 State, 1/3 County - \$7,300 each
\$22,000	22%	Banks: 1/4 Mortgage holder, 1/4 Servicing Agent, 1/5 Bank - 5,500 each
\$12,000	12%	Buyer: 100%
\$6,000	6%	Seller: 100%
\$62,000	62%	Total Down
\$38,000	38%	Loan
\$792		Monthly Mortgage before interest

Purchase: \$12,000 Down, \$792 a Month

This sizable down payment allows the buyer or home owner to (re) purchase this/their \$200,000 home for as little as \$12,000

down (6% of the total price or 12% of 1st loan)¹ and \$792 a month before interest. If the buyers' down payment is also financed, their monthly would be \$1,166 a month before interest.² You have now cut the cost of the mortgage payments by 30 to 50%. This cost reduction closes the gap between what owners can afford to pay against the cost of the home mortgage. You will have an explosion of new home purchases alongside all the service fees, taxes and industries generated by home sales. In short, we are NOT bailing out greedy Wall Street brokers or even foolish home owners, rather, we are empowering the next generation of buyers that will often prove to be the original owners.

1st Term: 4 Years; 2nd Term: 30

At the end of this 4 year term, the house is again sold for the remaining \$100,000 and packaged into a new 30 year loan. Here we find the 4th part of the COMPs program. We have extended the original 30 year loan term by another 4 years. This further reduces the monthly mortgage.³ We can require a down payment from this 2nd term loan, but that may also be included in the monthly mortgage when the buyer is the original owner of the property. Any new buyers would need a 10% to 15% down payment for the 2nd loan term.

Property Prices Fixed for Term

¹ 6% interest on a \$38,000 loan would run at around \$200 a month more.

² Sometimes, adding down payment into the monthly mortgage would prove too expensive for the home owner/buyer. In this case, the down could be transferred over into the 2nd term mortgage leaving the monthly closer to \$800 a month.

³ We can add an additional 4 year term as well. This would allow a greater pay down of the total loan from 30 years into 38 years. We could also divide the loan 3 ways rather than by just 2. The 1st term would then be a third rather than half the total as we have done here. The problem is that if the interest rate is too high on the remaining sum, it will still be too expensive to refinance in the 2nd term. So a \$200,000 home would have a 1st term of just \$66,000 rather than \$100,000. This would allow the government to pay down the bubble in 2 installments over 5 years. We find the present real estate bubble affordable enough to cut the loan by the whole 50% rather than simply a 1/3. It also means that we have just a onetime bail out rather than too. All the parties of today's real estate crisis are primed for action now. They may not be in 5 years from now so doing everything in a one shot pay down.

During the first term, the property cannot be refinanced and must be sold at the end of 4 years for nothing more but its remaining \$100,000 mortgage and any other accumulated interest charges, misc. expenses and taxes. Remember, it's just like a car lease. Only upon completing this 2nd purchase can the property be refinanced with a 2nd mortgage against its added value. This moratorium on 2nd mortgages will allow the market to stagger a whole segment of affordable homes. This will keep the market from over-heating again into a single, large bubble as we have now. There will always be a sector of affordable homes coming onto the market. Low income buyers, for example, can be offered first dibs on these homes. This could be HUDs' new low income housing program.

Contributions: Affordable & Profitable

Here we apply the old adage: Divide and conquer. The down payment is divided 4 ways between 8 different players making the cost almost incidental to each. In fact, it will cost most of these parties nothing. Most will actually make a tidy, instant profit.

Government: Instant Cash Back in Sales Tax

For the government, the cost of the down payment is divided between the Federal, state and county governments. In each case, they stand to be compensated in taxes from both the sale of the property in addition to the higher, on-going annual property taxes from both the house and the neighborhood.

3% Contribution from Each

We don't refinance the properties, but rather, it is like the car lease that represents an entirely new purchase. We structure this as a sale to side step the legal obligations/ complications of the old, outstanding mortgage contracts. Today's mortgage contracts present a potential legal problem to all the proposals being offered to this crisis. As a home sale, the legal issues are

resolved. Because it is a sale, government also gets instant cash back of up to 4% in sales tax.⁴ Yet, the government has only put in a total of 11% for the down payment. This comes to just \$22,000 against the full price of the \$200,000 home.⁵

State = Property Tax; Fed = Investment Tax

The county and state governments of course have a lot to gain from this. They receive the bulk of all property taxes - annually. They will recoup the full cost of their contribution by the 2nd to 4th year. The Fed recoups the full cost of their contributions as well. The Fed will receive a new wave of taxes from the sale of all these (sub-prime) mortgage holdings now sitting in the closets of investment bankers who presently have no buyers.

Recoup 1st Year for Every 75 Homes

Now contrast this against the lost for each of these government players if the market continues to slide. Every house on a block loses \$5,000 in value for every home placed into foreclosure. This means that a block of 75 homes will lose \$375,000 in assessed value for every home placed into foreclosure. That comes to \$3,500 a year in lost taxes at a 1% property tax rate. The state and county governments will recoup their entire contribution by the second year in added tax revenues for each home they save from every lot of 75 houses. This is before we include the sales tax. The sales tax could allow the state to recoup its contributions within the first year – depending upon tax rates. The more properties they sponsors, the more government makes in tax revenue. Rarely can government find this ease of return or fast turn around.

⁴ The sales tax is for the entire price of \$200,000. The 1st term mortgage includes the sales tax for the 1st \$100,000. The tax on the remainder is carried over to the 2nd term w/interest.

⁵ This is 11% against the full price of the \$200,000 home or 22% against the 1st term loan of \$100,000. Of this 11%, each division of government pays little more than 3% of the property's value. Each would potentially get back about a third of their contribution upon the sales completion.

Banks: Write Offs Reset @ Original Value

The Compound Mortgage provides the single most important factor missing from all the other proposals to this subprime mortgage crisis. Banks will finally be able to quantify the full length and breadth of all their investments and do so at their original value.

Reinstating \$75 Billion in Write Downs

Banks and investment brokerages have the most to gain here. They have up to \$35 (to \$75) Billion already 'written down' off their books. This could reach into \$200 billion. With COMPS, the entire write off is now reinstated back to its original value. All outstanding real estate loans can now be calculated at their full price. COMPS makes real estate affordable again and so finding buyers for today's distressed properties.

Selling 30% Recreates 100% of Market Value

We don't have to sell 100% of all properties to re-establish a market's original value. You only need to sell say 30% of all available properties in order to re-activate a hot market. Let's say a city has 15% of its properties in foreclosure or 'for sale.' They only need to sell (say) 45% of that housing inventory to jump start their market again. This would leave the city with a housing availability of just 7%. Even neighborhoods with a 70% foreclosure rate only need to move 45% of that inventory to restart the neighborhood again. The great advantage of foreclosed properties is that most of them have corresponding owners that want those homes back and could afford them if they were indeed 30% less. COMPS is not bailing out those owners so much as creating a new class of both buyers and lenders. Buyers & lenders are the 2 players missing from this real estate melt down. We recreate both in one fell swoop that is simple, affordable and fast.

Leveraged Problem Solved

The reason the market has been so spooked by this crisis is that they can't fully identify the mortgage liabilities lurking among the financial institutions that carry these subprime and other real estate related risks. This leaves firms blind in figuring the value of their investment holdings. What is commonly referred to as hedge funds or exotic investments is generally a fluffy way of talking about different investment sectors that have been sliced and diced and then repackaged into an ever growing number of combinations: 1 part subprime, 1 part blue chip, 1 part foreign investments, etc. Figuring the ratio of subprime from the mix of these other holdings is the first hurdle in assessing the investments value. Figuring the value of the subprime/real estate portion then becomes the 2nd problem. The result is a leveraged problem.

Inverse of Market Bubble

A billion dollar investment package with as little as 10% in subprime mortgage holdings leaves the entire \$1 billion investment in question. Because this entire billion dollar investment cannot be clearly appraised, it cannot be sold. Buyers can't be certain of its real market value. This originally forced banks to sell off a billion dollar package of their best assets to raise the needed liquidity for this now compromised \$1 billion package with the real estate holdings. Many of Wall Street's best stocks then flooded the market thereby driving down the value of our best stocks as well. Put more simply, as little as 5% of their total investment holdings of sub-prime real estate compromised 95% of related markets worth.

Quantify Consumer vs. Wall Street

A far more easy way to quantify this problem would be to look at this issue from the consumer's side or from the home buyer's themselves. It is simply too complicated to try and figure our or bail out this problem from Wall Streets side. Wall Street is of course ego centric, but now, we have a government that has left most of its economic policy to Wall Street 'specialists.' As such, all of today's proposals have been based from this obsession of the

financial institutions well being rather than looking at things from the peoples (home owners) side of the equation. In turn, all of Wall Street's experts have missed the ease of tackling this problem once approached from the public's perspective. It's a perfect example of ivory tower policy over government by the people.

Reset \$100 Million, Unleash \$2 Billion

To recap, we are compromising the actual value of the first \$1 billion dollar package because of its \$100 million in real estate mortgages. This forced the fire sale of the second \$1 billion dollar package with no real estate holdings and so compromising its value as well. COMPS potentially resets this entire \$2 billion worth of investments back to its original value. The \$100 million in real estate holdings is re-instated to its full value. This resets the \$1 billion package holding these mortgages. This will then allow banks to balance their portfolios with other stocks that were previously sold off and so driving up their values once again too.

Market Presently Undervalued

Today's market implosion is the inverse of a market bubble. There is greater value in today's market than otherwise represented in the stock prices. This value will be unleashed once we have reset our mortgage holdings back to their full value. This could unleash up to \$2 trillion in new trading activity. This is before we include the dollar's drop and the other ramifications of this crisis of confidence.

Recoup Summers Full Value + New Taxes & Service Fees

The great news: the stock market can regain the entire loss it experienced since its summer slide. Not only can Wall Street take back all this lost value, but it will generate a tsunami of service and commission fees in this new round of trading. This is before we talk of higher interest rates that banks can also begin to charge again. And who will be there to collect from each of

these transactions? Uncle Sam. Yeap, the Feds will take back many times more than they will put into revving up the markets again. We will have jumped started real estate's financial eco system.

The more the Feds put in, the more they get back. It's rare for Washington to see this direct and immediate back wash of tax revenue for investments made by the government. The speed of return is simple to explain. They don't need to create anything new; rather, the government only need unleash the value tied up in real estate and associated investments.

Government: \$4 Million to Unleash \$2 Billion in Trades

We can understand the multiple of the Feds returns by looking at our \$2 billion example above. Of this \$2 billion, the real estate holdings were just \$100 million. The Fed is only contributing 4% (\$4 million) to this \$100 million, but collects taxes on the entire \$2 billion worth of these investments that will now be bought and sold. It is on this entire \$2 billion sum that Uncle Sam collects his tax fees. The fed makes \$20 million at an averages tax of just 1% on this \$2 billion. However, this does account for how many times this \$2 billion will finally be traded providing a potential tax from each transaction. It's therefore hard to estimate the full amount the fed will make from this small contribution. We do know the fed makes more having these investments trading then not. This is not so much a bail out of Wall Street, but more a bail out of Washington's own faltering economic performance. Washing can finally help pry open the lost treasures of the American real estate market that was created by Wall Street's sponsor of it. The Fed can do this by simply coordinating the different industry parties. Playing general coordinator is a far more legitimate role for government then lone task master to just one of these many players whether it be a bail out of Wall Street or home owner. With COMPS, the government is not bailing out a special interest party, but rather an entire industry.

Investors: 2% pay down against 13% loss

This brings us to the investors holding these loans and those servicing them. They each contribute about 2% of the loans total value towards the down payment.⁶ The incentive for them should be obvious. The investors are the primary party being bailed out by everyone else. They access this nearly 30% of contributions towards their loans in exchange for their small 2% contribution to this process. Investors' holding today's troubled real estate loans are now estimated to be looking at loses reaching 10% to 13%. These calculations are based upon today's assessments which maybe as under stated as the predictions made 2 to 3 months ago. We can only hope that they will only lose 13% in today's crisis. It could very well be more if things continue to worsen.

The Compound Mortgage will set their loss at a fixed 2%. This amount is almost incidental and very affordable. For this 2%, they get back 98% of their investment -instantly. Better yet, they get to move their investments verses those now stuck with the prospect of having them tied up in defaults or losing them altogether. And they can also finance the new loans to their old clients without the risk they face today. They can also charge better interest rates. The host of new fees offers the banks servicing these loans a similar degree of returns and ease over the multiplying troubles they face today.

Buyer: 6% Down

This leaves us with the buyer and seller. For the buyer, they should be able to provide a small 6% down for their purchase. It is hard to find a more favorable term. However, when the owner is going to repurchase their own home, they can have this down payment added into the monthly mortgage payments – if they do not have the money to put towards this purchase. If this makes the monthly mortgage payment too expensive for them, they can have the down deferred to the 2nd term loan as well.

Seller: \$125 a Month, No Liability

⁶ This 2% is representative of the entire sum of \$200,000, but it represents closer to 5% of the 1st Terms loan of \$100,000.

The Seller should also be left with some small price to pay. We suggest a 6% contribution by the seller.⁷ If they cannot afford this sum, they will also take out a loan to make this contribution. This will leave the seller with a small \$125 a month (before interest) payment. This is paid off in just for 4 years. For this small contribution, the seller walks away from their property with their credit intact. It's a small price to pay for the option to walk without further liability. Today's foreclosure leaves its victims economically hobbled for years if not decades. In contrast, COMPS offers a small, affordable, short term fee to pay. However, when the seller is also the buyer, this price is also added onto the new mortgage. The total monthly mortgage will then be \$1,170 before interest. The home owner knows that they need only pay this mortgage for just 4 years for after that, their 2nd term loan will run about \$700 a month.

Gov't Costs: \$7 Billion for 2 Years

The total cost to the Feds, State(s) & County(s) would come to a onetime charge of \$14 billion each for a total of \$44 billion. This represents 11% against the total \$400 billion outstanding in the subprime mortgage market. This is calculated for 2 million homes at a price of \$200,000 divided into 2 terms of a \$100,000 each with a 22% down payment for the 1st term. This would be divided up over 2 years so reducing this cost to each government sector to just \$7 billion a year. This is less then we see HUD spending today to help subprime buyers purchase a home. COMPS may offer HUD a whole new system for financing their low income buyers. Using HUD funds for this means COMPS would not even require any additional cost from the federal budget.

Banks: \$7 Billion to Recoup \$75 Billion + Trading Fees

Banks would provide about \$14 billion over 2 years. The banks that have written down \$75 billion worth of subprime mortgage holdings should be the ones most interested in

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This is 6% against the loan of \$100,000 of the 1st Term but only 3% against the total \$200,000 loan of the home.

providing this 'bail out.' They put in this \$14 billion over 2 years, (\$7 billion a year) and they get back the full \$75 billion value of these subprime mortgage holdings in the first month. The banks stand to make the same kind of multiple in returns as the feds because it's this 5% of their holdings that have compromised 95% of their associated stocks.

Banks get two benefits. 1) They reinstate the full value of the mortgage holdings. 2) They get to trade these investments again and do so potentially dozens of times more. They make profit and service fees off each of these transactions much like the Fed does. However, banks make more per trade than the government. They therefore have more incentive to provide these funds than the government.

Wall Street's Bail Out of HUD

This leaves us with the final and most difficult bridge to cross. That is the political bridge of recrimination, hypocrisy and inertia. Having Washington call such measures a bailout of Wall Street is to overlook Wall Street's bail out of Washington's mandate to provide home ownership to this class of subprime buyers in the first place. Wall Street managed to get these economically handicapped buyers into homes in under 4 years when all of government failed to do so in 40. I sense that Wall Street did this for as little as 10% the price of government's programs like HUD. If Wall Street did in fact accomplish this for less, the finally hypocrisy would be having politicians calling Wall Street greedy. When government spends so much more to perform the same task, somehow it is not viewed as greedy. Hmmm.

Not only did Wall Street do this faster, for less, but they reached a far greater market penetration of this handicapped buyers market. Leave it to politicians to overlook this daunting success that far exceeded their own efforts. They instead turn around and point fingers. The government stands proudly against the calls for help when the market has now reached its own limitations of this grand success. COMPS is not a bail out for Wall Street, but the final step of this needed help for these subprime

mortgage holders. Again, these subprime holders are the very people government was suppose to help in the first place, but was too slow to do so. It seems odd how government is an all or nothing button. They either take on the entire project or blame others for failing when they try. COMPS can mediate this (in) balance of government action.

There is no other proposal that offers to resolve this crisis so promptly, completely and most of all - affordably. Yes, this program cost much less than most anything else being considered and certainly less then what it's costing all of us right now. We do this by uniting all the players of the industry into a partnership wherein each makes but a small contribution to create a sizable difference for everyone. This is the model of governance of the 21st Century. Welcome to the Compound Mortgage Prepayment system.

Raghu aka John Giuffre has been a practicing Real Estate broker for 5 years and presently working with Mark David of NYC. Like many real estate brokers, Raghu has looked into a number of 'creative financing' options for different clients over the years. Lease to Own purchases are one of the more common creative financing system used outside bank loans. It was in playing with this model that he discovered the lease to own possibilities for the country's mounting real estate crisis. Realtors are use to working with people when banks don't. Today, we do it for the nation.