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Wall Street Crisis – Surprise! Good News for Consumers

Ann Arbor, MI September 17, 2008 – “Ironically enough, consumers benefit in three ways from all the turmoil going on right now on Wall Street,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers.

#1 – Greater Negotiating Power on Underwater Mortgages

“Wall Street is finally marking down the value of their mortgage related assets to levels where it is very attractive for mortgage servicers to negotiate with distressed home owners and modify their mortgages,” said Nicholas. Consider this illustration for more details:

<http://www.cmpsinstitute.org/pdf/WriteDownsandHomeownerNegotiatingPower.pdf>

Also, more info on this can be found in a recent television interview conducted on Monday, September 15, between Fox 2 Detroit and CMPS Chairman Gibran Nicholas:

<http://www.myfoxdetroit.com/myfox/pages/Business/Detail?contentId=7438423&version=2&locale=EN-US&layoutCode=VSTY&pageId=4.1.1>

#2 – Profit on Sale of Financial Assets Acquired Through Government Takeovers

“The crisis with AIG is kind of like a homeowner who owns a \$1mm house and can’t afford next month’s payments on their \$100,000 mortgage,” said Nicholas. “Even as it is virtually impossible to expect the homeowner to sell their \$1mm home at a fair price in just one week, is also very difficult for large companies like AIG to sell assets and raise capital in short periods of time. The only difference between AIG and the homeowner in this scenario is in the number of zeros involved. The US Government is the only entity that is large enough to help AIG raise enough funds in such a short period of time in order to help the company maintain its financial obligations. It’s as though the government just got 80% control of that \$1mm property in exchange for giving the property owner some more time to sell the property at a decent price.”

The Fed stands to make over 11% interest (LIBOR + 8.5) on the \$85 billion line of credit they extended to AIG yesterday. Also, through the 79.9% equity stake the government now has in AIG, taxpayers stand to make a profit when the government sells AIG’s assets in the coming months in order to repay the loan. “Just because you can’t sell something quickly in two or three days doesn’t mean it isn’t worth anything,” said Nicholas. “AIG just needs time to sell some of their assets in an orderly fashion and at a fair price.” The loan from the Fed gives them that time and

taxpayers stand to profit because they just became AIG's biggest shareholder at virtually no cost other than the short term Fed loan.

#3 – Low Mortgage Rates

Interest rates on fixed rate mortgages are tied to the Fannie and Freddie mortgage bonds that trade on the bond market. As Wall Street goes through crisis, and as the government bailout of Fannie and Freddie makes their bonds very attractive and almost risk-free for investors, mortgage rates should remain low throughout the near future. "American homeowners can take pride that their borrowing costs are among the lowest in the world, and even lower than the rates that many of the big Wall Street firms are paying right now," said Nicholas. "Even if you have an adjustable rate tied to the LIBOR or Prime index, these rates should also remain low well into 2009 because they closely track the Fed Funds rate that is controlled by the Federal Reserve. The Fed really has no desire to increase interest rates in the middle of credit crisis."

The only losers in this scenario are the homeowners who don't qualify for Fannie and Freddie loans. "Unfortunately, these home owners will continue to see their borrowing costs increase due to the credit crisis and lack of liquidity among banks and financial institutions," said Nicholas.

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

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