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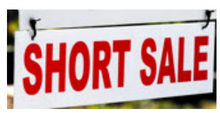

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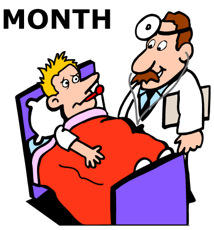
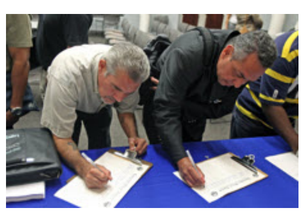


MORTGAGE MARKET MOVES AND ANALYSIS



Unemployment Rate Declines (Week ending 3/8/2013)

Unexpected strength in the labor market was seen this week. The good economic news lifted the Dow stock index to a record level, but it also pushed mortgage rates higher.

Mortgage rates climbed on the days leading up to Friday's Employment report and rose even higher after the figures were released. Against a consensus forecast of 170K, the economy added 236K jobs in February. The Unemployment Rate declined from 7.9% to 7.7%, the lowest level since December 2008. Average Hourly Earnings, a proxy for wage growth, increased modestly from last month. In short, today's data exceeded expectations nearly across the board.

The growth in the labor market is a major component of a broader improvement in the US economic outlook. Recent manufacturing, Durable Orders, and Retail Sales reports have also reflected a pickup in economic growth. This has resulted in an increase in Consumer Confidence and Consumer Sentiment, as well as higher stock prices. For the housing sector, the positive economic news increases the ability and the willingness of people to buy homes. The downside is that stronger economic growth generally causes mortgage rates to rise.

Retail Sales Surge (Week ending 3/15/2013)

The economic growth data released this week was mostly stronger than expected, which normally would push mortgage rates higher. After a large increase last week following strong Employment data, however, rates instead recovered some ground and ended the week a little lower.

This week's economic data continued to demonstrate improvement in the economy. February Retail Sales jumped 1.1%, which was far above expectations. Retail Sales are closely watched because they account for roughly 70% of economic activity. There has been concern that higher payroll taxes and rising gas prices will slow consumer spending, but there have been few signs of this so far. February's Industrial Production showed stronger than expected gains as well, and Capacity Utilization rose to the highest level since March

2008. Weekly Jobless Claims dropped sharply, and Continued Claims declined to the lowest level since the middle of 2008. This kind of strong economic growth should support continued improvement in the housing market.

The headline monthly inflation reports reflected large increases due to rising gas prices, but core levels remained well within the Fed's comfort zone. The February Consumer Price Index (CPI) rose 0.7% from

January. By contrast, Core CPI, which excludes food and energy, increased just 0.2%. Fed officials prefer to look at core readings of inflation, which exclude the most volatile components and present a better indication of long-term trends. According to the Fed statement, core inflation levels below 2.5% do not pressure the Fed to scale back its bond purchase program, which has helped keep mortgage rates low. This month, Core CPI was 2.0% higher than one year ago, while the Core Producer Price Index (PPI) was even lower at 1.7%.

Bailout for Cyprus? **(Week ending 3/22/2013)**

News of a Cyprus bank bailout proposal caused a flight to safety early in the week which helped mortgage rates. Investors then viewed the Fed statement released on Wednesday as negative for mortgage rates. The two factors roughly offset each other, and mortgage rates ended the week just slightly lower.

Banks in Cyprus, a member of the European Union, are in dire need of additional capital. Cyprus is a tax haven for foreigners and its banking sector is enormous compared to the size of its economy. The EU proposed to loan Cyprus some of the needed funds, if Cyprus raised the rest through a one-time tax on all bank deposits. The bank deposit tax was very unpopular, and government leaders in Cyprus voted against the bailout plan without providing an alternative. EU officials have warned that they will cut off emergency funding for banks in Cyprus on Monday if Cyprus is not able to come up with the rest of the needed funds. Most analysts view the Cyprus bailout terms as a unique situation given its nature as a tax haven, but investors are nervous that the troubles may spread.

The Fed statement did not contain any major surprises, but investors did receive a little more information on the Fed's exit strategy from its current Treasury and MBS purchase program. When Fed officials are satisfied that there has been significant improvement in the labor market, they plan to gradually decrease the quantity of monthly purchases below the current level of $85 billion. Even if the Fed begins to tighten in baby steps, the question is how big a reaction there will be in MBS markets when the Fed announces that the time has come. Signs of the impact were seen on Wednesday when concern that the Fed may begin to scale back its MBS purchases sooner than expected caused mortgage rates to rise.

ESCROW 2.0

This month's topic may seem rather basic, but for first-time home buyers it's not. To make it worthwhile for the more seasoned among us, I'll try to provide a few items of information with which even they may be unfamiliar or unclear on.

WHAT IS ESCROW?

The basic concept of escrow is to assure that both the buyer and the seller are protected during any real property transaction. To this end the services of **a neutral third party** are employed. Generally speaking, an escrow agent's primary responsibility is to act as a trustee of funds and documents deposited with them and to follow the escrow instructions accordingly and make the proper disbursement of said funds and documents. In California, escrows are performed by Banks, Savings & Loans, Title companies, as well as Independent Escrow firms which are licensed by the State of California.

WHAT IS ESCROW RESPONSIBLE FOR?

An escrow is said to be "opened" when ALL signed Instructions are Returned with a Deposit of Funds to Escrow. In addition to its primary function as an intermediary to follow the escrow instructions among buyer, seller, lender and realtor, escrow's other responsibilities involve computing a pro-ration of taxes, fire insurance, homeowner's association dues, interest, etc., as well as, ordering payoff statements (demands) in the case of a refinance or debt consolidation loan, requesting beneficiary's (Lender's) statements if needed, preparing documents to transfer the interest of the Seller to the Buyer, calculating the estimated funds needed to close, facilitating loan signings for a Lender, complying within the time limits imposed by the instructions, disbursing funds and documents and providing Buyer, Seller, Lender, and Realtor with copies of the closing statement. When these duties have been satisfied the escrow is said to have "closed". Among the reasons why escrows don't close as planned are that no one informed the escrow agent that the escrow was contingent upon the closing of another escrow or that the escrow was to close concurrently with another escrow.

BUT, WHAT IF…

If, for some reason, all instructions cannot be carried out by the end of the time limit, all parties involved are entitled to the return of documents, fees, funds and other related materials. On the other hand, they may mutually consent to extend the time period by changing the instructions.

TIPS

1. If you have a question, have your escrow number handy. It expedites responding to your inquiries and needs.
2. Identify yourself immediately. (Escrow information can only be given to the parties involved in the transaction).

IMPOUNDS CONFOUND BUYERS AND BALLOON CLOSING COSTS

As previously mentioned, escrow is charged with computing a pro-ration of taxes, fire insurance, homeowner's association dues. This brings us to one of the most confounding aspects of buying a home—taxes. Initially, it seems pretty straightforward but then things start to deviate from the rational. And, it is where escrow starts to really earn their money.

As most of you know the State of California's fiscal tax year begins on July 1 and ends on June 30. As such property taxes are a broken up into two six-month installments: the first half is from July to December and the second half-year installment is for January through June. The tax authorities like to get your money a bit up front, so the July-December payment is levied and due on November 1st and becomes delinquent a little over a month later on December 10th. But then, the January-June installment jumps up the due and payable date by two months to February 1 and pushes back the delinquency date, not by a month and ten days as they did in the first half, but instead by 2 months and ten days to April 10th.

If escrow closes on or after November 1 most lenders require that the 1st installments are to be paid through escrow. If escrow closes on or after February 1st, the lender will usually require that the 2nd installment of taxes be paid through escrow, if they have not been paid.

It gets crazier still when one is establishing an impound account with the new lender. If a buyer's transaction closes in October the lender will collect 9 months of taxes but if the buyer closes in February only 1 month of taxes is required. Incidentally, taxes are assessed on March 1. If you buy a property in say September, the tax will be for the old assessed rate and the buyer will receive a bill for supplemental taxes at the new rate. Because of the presumably higher purchase price it will apportioned at .0833 per month based upon the number of months remaining until the end of the tax year, June 30. In this case it would be .833 x 10 months or .0833

In the event the taxes are not paid on a property the tax bill is stamped "Sold to State". If "Sold to State" appears on a tax bill, it is an indication of delinquent taxes for one or more year. To redeem the property it will be necessary to pay the following (a) delinquency penalties, (b) costs, (c) redemption penalties, and (d) a redemption fee.

FIRE INSURANCE

Often when buying a home borrowers are surprised to find out that loans in excess of 80% of the appraised value, and all government loans (FHA and VA loans) require impounds for taxes, insurance and mortgage insurance. They are further surprised to discover that they must not only prepay a year's worth of fire insurance, but also establish an impound account with 2 months of prepaid premiums. When the annual premium is due again in 12 months, the lender pays the premium out of the borrower's escrow account. Typically, the borrower's first mortgage payment will not be scheduled until the second month following closing, which means there will be only 10 installments in the account when the annual premium is due again. For this reason the lender will collects 2 months reserves at closing.

MORTGAGE INSURANCE

If your loan requires mortgage insurance, escrow will require 2 months of mortgage insurance premiums as the norm. Again, the lender will escrow 2 months of the mortgage insurance premium to cover the initial 2 months when no mortgage payment is made.

HOA DUES

Like taxes, they are pro-rated, but unlike taxes escrow normally only collects two months worth.

FIRPTA & CAL FIRPTA—GOVERNMENT IN YOUR POCKET

Foreign Investment in Real Property Tax Act, (FIRPTA) requires Federal **withholding of 10% of the sales price, regardless of the amount of profit** from the transaction in the event that a foreign person would sell U.S. real estate and forget to file a U.S. income tax return. Similarly, **California FIRPTA requires 3 1/3% withholding for "foreign persons" (which includes all non-Californians, including US citizens moving to another State).**

The required payments are **deposits** on any tax liability owed. Like payroll tax withholding, this money is not lost; it is a deposit on actual tax owed. If too much is withheld, the overage will be refunded the following April by filing form 1040NR. If no tax is due, the **entire deposit will be refunded**.

Previously, where withholding was required under CAL FIRPTA, a Seller had to withhold 3 1/3% of the property's gross sale price. Now, for all transactions closing on or after January 1, 2007, a Seller may choose between the original withholding method or elect an alternate withholding amount based on the Seller's estimated gain. The alternate withholding amount will be based on the calculation of applying the maximum tax rate to that Individual or Entity, as Seller, to the Seller's estimated gain.

Escrow is essentially a hired intermediary that exists to protect the interests of principals in real estate transactions involving purchases and refinances. Its other primary functions are to attend to the various housekeeping chores associated with them such as pro-rations for interest, impounds for insurance and taxes, HOA dues, mortgage insurance, various state and federal withholdings, and balancing these general accounts.

A good escrow agent is worth their weight in gold.

My two favorites are:

- Diane Derr at Pacific Coast Title & Escrow, (714) 516-6700, 1111 E. Katella, Suite 120, Orange, CA 92867
  Diane's operation is experienced, efficient, effective, and inexpensive.
- Vickie Pio at Chicago Title & Escrow (858) 451-5600, 16766 Bernardo Center Drive, Suite 110, San Diego, CA 92128
  Vickie is super-quick & amazing. For example, on a foreclosure purchase that was 48 hours away from being auctioned off, she somehow managed to get the docs signed, the loan funded and recorded, all in the same day.

STRUGGLING HOMEOWNERS TURNED TO SHORT SALES IN 2012

Struggling homeowners increasingly turned to short sales to get out from under mortgage debt last year. There were nearly three times as many short sales as there were sales of foreclosed homes in 2012, according to RealtyTrac. Foreclosures accounted for 11% of all sales, down from 13% a year before. Meanwhile, short sales rose 5% year-over-year, accounting for 32% of all home deals. We're seeing fewer of the most disruptive sales, the [bank-owned foreclosures], hitting the market but there are still a lot of distressed property sales. They're shifting to short sales, though.

In a short sale, homeowners sell at a price that is less than what they owe the bank, and the bank agrees to absorb the loss. Typically, a seller has to demonstrate some kind of financial hardship before the bank will approve the deal -- and forgive the unpaid debt. The bank then sells the house, typically at a better price than it would have gotten had the home gone into foreclosure.

During the fourth quarter, the average discount on a foreclosure was a whopping 39%, while the average short sale sold for 23% below market. The biggest spike in short sales last year occurred during the second half of the year. Fueling the increase was the National Mortgage Settlement, an agreement between the government and the nation's five biggest mortgage lenders which was finalized last February. Under the terms of the deal, the banks receive credit towards the settlement when they approve short sales for distressed homeowners. Of the $45 billion in consumer relief that lenders have reported under that agreement, $19 billion has gone toward forgiving debt in short sales, according to the latest report from the Office of Mortgage Settlement Oversight.

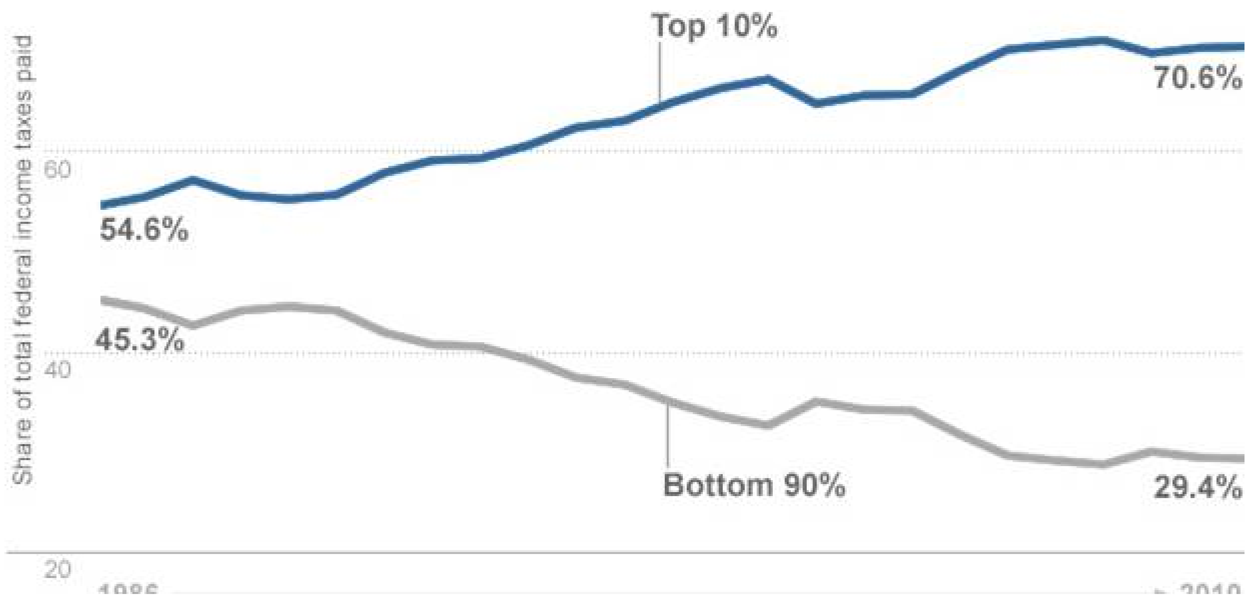
Many underwater homeowners were also scrambling to unload their properties before the Mortgage Forgiveness Debt Relief Act was set to expire December 31. Had the act been allowed to lapse, homeowners would have had to start paying income taxes on the portion of their mortgage that is forgiven in a foreclosure, short sale or principal reduction.

The growing number of short sales helped buoy the housing market and push distressed home prices higher last year. During the fourth quarter, for example, homes that were either bank-owned or in foreclosure sold for an average of $171,704, an increase of 4% from a year earlier. In Arizona, prices were 22% higher in the fourth quarter compared with late 2011. In Nevada, prices jumped 21%; and in California -- where short sales comprised more than a third of all sales—they increased 14%

THE RICH PAY MAJORITY OF U.S. INCOME TAXES

Many people think that the rich are able to weasel their way out of taxes, but they actually pay an overwhelming majority of the taxes in the United States. What's more, their share of the tax burden is increasing. The top 10 percent of taxpayers paid over 70% of the total amount collected in federal income taxes in 2010, the latest year figures are available, according to the Tax Foundation, a think tank that advocates for lower taxes. That's up from 55% in 1986.

The remaining 90% bore just under 30% of the tax burden. And 47% of all Americans pay hardly anything at all -- a fact that got Republican presidential candidate Mitt Romney into political hot water last year. “There's been a huge myth created that the rich aren't paying anything," said William McBride, the Tax Foundation's chief economist. "The rich pay a much higher rate than the poor."

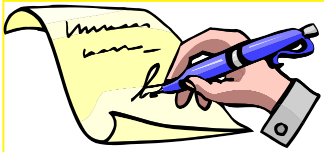


These numbers may not tell the whole story though. The tax code is getting more progressive, said Roberton Williams, a senior economist at the centrist Tax Policy Center. In 1986 there were just two tax rates -- 15% and 28%. Now there are seven income tax brackets, going from a low of 10% to a high of nearly 40%. While taxes on investment income have declined a bit since 1986, incentives like child care and income tax credits for the poor have been greatly expanded. But the rich are able to take advantage of tax breaks too. That's why Williams said there's a popular notion that the wealthy are somehow cheating the tax man. In fact, the Tax Policy Center found last year that there about 4,000 households with incomes over $1 million that were not paying anything at all.

Bob McIntyre, director of Citizens for Tax Justice, a liberal group, added that looking at just federal income taxes doesn't give the whole picture. When factoring in state and local taxes, the top 10% pay just under half the tab. And when calculating tax burden as a percent of income, the tax code is even less progressive. The top 10% paid an average of 30% of their income in local, state, and federal taxes in 2011, said McIntyre. That's not much different than the 25% percent paid by the middle class. "The system is a little progressive, but not much," McIntyre said.

Still, the wealthy are paying more taxes on a federal level simply because they are making so much more money. The top 10% of taxpayers take home 45% of the nation's income, according to Citizens for Tax Justice. Moreover, they seem to be getting richer all the time. "The vast majority of income gains have gone to the people at the top," he said. And it's this growing issue of income inequality that seems to anger people the most. Overall salaries and wages haven't even kept pace with inflation over the past few years.

MORTY'S MAILBAG



Q. Sometime back, you wrote in a previous newsletter, that the difference between a PRE-QUAL LETTER and a PRE-APPROVAL LETTER was that in order to receive a pre-approval it was necessary for an underwriter to have actually reviewed a borrower's credit, income, assets and liabilities. I recently filled out a loan application with Ameriprise and they issued me a pre-approval for a $900,000 purchase money loan and I know my finances were not reviewed by an underwriter. If what you say is so, how did they manage this?

A. In all likelihood they didn't and most probably you didn't receive a pre-approval, either.

What you received in effect was a pre-qual letter issued by the Ameriprise rep (mortgage banker). Laymen, realtors, mortgage bankers AND mortgage brokers mistakenly use them interchangeably and incorrectly. It is all too common. Though, in your case, I suspect it was likely deliberate because pre-approved sounds better than pre-qualified to most people. (I have had realtors call me back after issuing a pre-qual letter and ask if I might re-write it so that it states that their client is pre-approved. Their concern is that in the event of multiple offers on a purchase because all things being equal, **the seller is much more apt to go with the buyer that's been pre-approved as compared to pre-qualifed**. Typically, neither party fully understands the technical difference between the two. But, unfortunately, at this point, the terminology has become so degraded that the difference between the two is functionally nil).

Mortgage bankers have been deliberately misstating the case for years. You have probably received a letter in the mail congratulating you on being pre-approved for a new credit card with a certain limit. This, like so many other marketing ploys are, in effect, come-ons. If you read the fine print, the letter is guaranteeing you nothing. They want you to apply for the card AND THEN based upon their investigation of your credit, they will then grant you a card with a limit and interest rate that may be much different than what was referenced in the initial congratulatory letter.

Pre-qual letters came about because real estate agents justifiably did not want to waste their time driving around a bunch of *Lookie-loos*, people who often masquerade as buyers but have no real intention of ever buying. The other concern of agents was that they did not want to show them houses that they couldn't afford.

The designation **Prequalified** means that, I, as a broker, have reviewed the clients' finances and based on their application and various lenders' guidelines can attest to their ability to qualify for a home purchase with a specified loan amount. The client's ability to qualify is based on his or her credit score, income, assets, liabilities, employment and residential history. The purpose of a pre-qualification letter is two fold: 1) for the prospective buyer, it gives him/her an approximate price range in which to shop and 2) when an offer is made it indicates to the seller that the bidder is qualified to purchase the house in question. Because loan officers do not approve loans, a pre-qualification letter is not a commitment to lend.

Similarly, a pre-approval letter is not a commitment to lend. Technically, **Pre-approved** used to be a step up because it meant that the client's application and finances had been reviewed by an **ACTUAL UNDERWRITER**. As it is currently bandied about, it no longer does. In fact, as stated earlier, for all intents and purposes there is no longer any difference between the two. The reason that I declared that you hadn't received an actual pre-approval is because in today's lending environment no lender is going to waste their underwriter's time on blanket approvals for what are not even real deals, but only potential ones. Underwriters only get involved **AFTER** there is an accepted offer and the borrower's loan application has been submitted for underwriting approval. If lending institutions were to have their underwriters review POTENTIAL client for blanket approvals, they would have to either a) hire many more underwriters thereby making loans far more costly, or b) if they didn't increase their underwriting staff, approval would take far longer than it does today. As it is, underwriters are admonished to look at a file only two times 1) to do the initial underwrite and 2) to sign off when ALL of the conditions are in. They will not allow brokers to submit conditions in a piecemeal fashion because they do not want to revisit a file any more than absolutely necessary.

So, when a bank says that someone is preapproved it likely means that a mortgage banker (the in-house equivalent of a loan officer or mortgage broker) has "pre-qualified" a customer in effect averring that the client would likely be approved by that bank's underwriter. In effect, he or she has "pre-qualfied" the customer on the basis of their bank's lending guidelines.

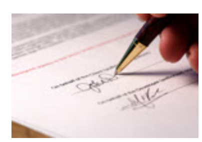
The bottom line in both cases is that whether one has been pre-qualified or "pre-approved", it will take the same amount of time to receive an actual approval. There is no short-cutting the process with one over the other, nor is there greater certainty of receiving actual loan approval from a prequalification letter as opposed to the spuriously named pre-approval. It is much ado about little. **NOTE:** Despite the foregoing, I have one lender that claims they will do TBDs (To Be Determined) purchases not yet in contract and underwrite them in 72 hours.

Finally, even when a client receives an **ACTUAL LOAN APPROVAL** it is a **CONDITIONAL APPROVAL** because although the loan approval is a commitment to lend, it is a provisional one. That is **PROVIDING THAT** the borrower can prove what he, she or they have claimed to be true on their loan application (a.k.a.form 1003). It is also predicated on a variety of things, e.g., the buyer can prove that they have they have the assets they claim on their loan application, e.g. X amount in their checking account or Y amount in stocks and bonds (for reserves), etc., that they have been employed 2 or more years, that their tax returns match up with what they filed with the IRS (form 4506-T) that the property will appraise for the purchase price, there is a clear title report, and any additional conditions stipulated by the underwriter in accordance with the lender's guidelines.

DO and DU APPROVALS

Another thing that most people don't understand is that a broker can get certain types of loan approval via automated underwriting engines in an hour or so by running what's called a Desktop Underwriter (DU) for Fannie Mae loans, Loan Prospector (LP) [for Freddie Mac loans] or Desktop Originator (DO) approval. This basically applies only to conventional Fannie/Freddie loans (those with conforming loan amounts under $417,000 (conforming) or high balance conforming amounts (under $546,250 in San Diego county and $625,500 in L.A. and Orange counties). The catch is that 1) it is not free, it costs about $30/file 2) you may receive an approve/eligible via DU, LP or DO but then the actual underwriter may decline the file for a various reasons like length of employment, occupation, investor overlays, etc . So, the thing to do is to wait until one has an accepted offer and then if it is deemed necessary, run a D/O or D/U approval. If a mortgage broker knows what they are doing, this is usually superfluous, but still it is no guarantee of actual loan approval for the reasons stated above.

APPROVAL = LOAN COMMITMENT



This is the real deal. It's the last step in the process. **After the property has been appraised, the buyer's documentation satisfactorily verified and the other elements such as Title and Escrow have come together, the actual loan commitment is APPROVED.** Essentially, this is when the lender says, "Everything looks fine—let's go to docs (signing).

I hope my parsing the differences here, once and for all, clarifies the distinctions between prequalified, preapproved and an ACTUAL loan approval.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to identified as "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is morty@mortgagestraightTalk.com

RATE SUMMARY

MORTGAGE RATES HAVE CHANGED LITTLE IN THE PAST MONTH

*Conventional conforming loans—nil change

*Jumbos—1/8th higher ↑

*Governments—unchanged, except for the FHA/VA 15 yr. fixed cheaper by .375-.5%

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:
www.mortgagestraighttalk.com Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

SPECIAL(S) OF THE MONTH

- Conforming 30 yr. fixed @ 3.375%
- Conforming 5/1 & 5/1 Interest Only ARM @ 2.125%
- High Balance conforming 30 yr. fixed @ 3.50%
- Jumbo 5/1 ARM @ 2.250%
- Jumbo 30 yr. fixed @ 3.500%
- FHA Conformng 30 yr. fixed @ 3.125%
- FHA/VA Conforming 15 yr. fixed @ 2.25%/2.375%
- HomePath 30 yr. fixed @ 3.375%

MORTGAGE MIRTH

Whenever I fill out an application, in the part that says "If an emergency, notify:" I put "DOCTOR".

NEXT ISSUES TOPIC: