



# Newsletter Vol. 12 Issue 4

## April 2015

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### BEST BUYS THIS MONTH

- Conforming 30 yr. Fixed 3.500%
- Conforming 5/1 ARM 2.625%
- High Balance Conforming 30 Yr. fixed 3.625%
- High Balance Conforming 15 Yr. fixed 2.875%
- Jumbo 5/1 ARM 2.750%
- FHA/VA Conforming 30 Yr. fixed 3.125%
- FHA/VA Conforming 15 Yr. Fixed 2.625%
- FHA High Balance Conforming 3.125%



Conforming to \$417,000 < High Balance Conforming \$417,001 to \$562,350 < Jumbo

## MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

### Strong Job Gains (Week ending March 6, 2015)

Friday's stronger than expected employment data was great news for the economy, but it was negative for mortgage rates. As a result, mortgage rates ended the week higher.

The employment report revealed strength nearly across the board. Against a consensus forecast of 240K, the

economy added 295K jobs in February. The unemployment rate declined from 5.7% to 5.5%, the lowest level since May 2008. Stronger job gains raise future inflationary pressures, which is not good for mortgage rates. The

reaction might have been even larger, but wage growth was lower than expected.

For most of last year, investors speculated that the European Central Bank (ECB) would implement a sovereign bond purchase program, similar to the US



### I ALSO DO:

- **COMMERCIAL LOANS (more than 4 units)**
- **"HARD MONEY" LOANS**
- **REVERSE MORTGAGES**
- **FOREIGN NATIONALS**
- **DELAYED FINANCING**
- **STATED INCOME LOANS**
- **MANUFACTURED HOMES**
- **ASSET DEPLETION LOANS**



quantitative easing (QE) program. In anticipation of this added demand for bonds, yields around the world declined. In January, the ECB formally announced that it would purchase 60 billion Euros (\$66 billion) per month of public and private bonds beginning in March. On the news, global bond yields fell even further. Thursday, the ECB announced that the exact start date will be March 9. Much like the experience in the US, most of the effect on interest rates from QE took place well in advance of the actual start of the program, and little reaction is expected when the bond purchases begin on Monday.

### **Retail Sales Fall Short Again (Week ending March 13, 2015)**

Weaker than expected retail sales data was favorable news for mortgage rates on Thursday. Events in Europe also helped US mortgage rates this week. As a result, rates ended the week lower.



Much like last year, unusually harsh winter weather has slowed economic activity during the first quarter. While economists had forecast a solid increase, retail sales fell in February, the third month in a row with a decline. With an improving labor market and lower gas prices, it was a surprise that consumer spending was not stronger.

In coming months, investors will watch to see how much spending was simply postponed due to the bad weather. Since slower economic activity reduces expectations for future inflation, mortgage rates improved after the news.

The European Central Bank (ECB) began its sovereign bond purchase program this week. This is the program they announced in January that is intended to lower interest rates and stimulate the economy. It is similar to the recently completed US Quantitative Easing (QE) program. While the actual start of the bond purchases by the Fed caused little reaction, the start of QE by the ECB had an unexpectedly large impact this week, causing global bond yields to move lower.

In other news from Europe, increased concerns about the status of the negotiations between Greece and euro zone officials caused investors to shift to relatively safer assets. This increased the demand for US bonds, including mortgage-backed securities, which also helped mortgage rates improve.

### **Fed Lowers Forecast (Week ending March 20, 2015)**

The big story this week was Wednesday's Fed meeting, and the Fed statement was well received by mortgage investors. Also positive for mortgage rates, the economic data released this week fell short of expectations. As a result, rates ended the week lower.



For several reasons, the Fed statement caused investors to push expectations for federal funds rate hikes farther into the future. First, Fed officials raised the requirements which would justify the first rate hike. According to the statement, Fed officials want to see further improvement in the labor market and want more confidence that inflation will reach their target rate of 2.0% before beginning to raise rates. Second, Fed officials lowered their outlook for economic growth and inflation over the next three years, meaning they expect it to take longer to meet these requirements. Finally, they forecasted a slower pace of rate hikes once the

rate hikes begin. Mortgage investors were pleased by the prospect that rate hikes are farther away and will take place at a more gradual pace.

The economic data released this week was consistent with the Fed's view of slower economic growth. Housing Starts dropped 17% in February, and February Industrial Production fell short of the consensus. Unusually bad winter weather was a major factor behind the weak data, and pent up demand could boost the results in coming months. In any case, slower economic growth reduces expectations for future inflation, which is good for mortgage rates.

### **Fischer Outlines Fed's Plans (Week ending March 27, 2015)**

On Monday, Fed Vice Chair Stanley Fischer elaborated on the Fed's plans for monetary policy. He said that it is "widely expected" that the Fed will begin to raise the federal funds rate this year. His key point, though, involved the Fed's expected path after the first rate hike. Instead of raising rates at a steady pace, which has been the typical approach in past tightening cycles, Fischer said that Fed officials will decide what to do on a meeting by meeting basis. Based on



the performance of the economy, he said the Fed might hike rates, make no change, or possibly even lower rates. Investors interpreted his comments to mean that the Fed will not raise rates as quickly as previously expected.

After two and a half weeks of solid improvement in mortgage rates, yields dropped to the point where investor demand for bonds, including mortgage-backed securities, declined. This was particularly evident at the Treasury auctions held this week. Demand was much weaker than average for 5-year and 7-year Treasury Notes, which caused investors to push yields higher.

The housing data released this week was mostly positive. February Existing Home Sales increased a little from January, while New Home Sales rose a surprising 8% to the highest level since February 2008. Existing sales were 5% higher than they were at this time last year, while new sales were up 25% from one year ago.

## THE STATE OF THE UNION



This is the tenth of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our “State of the Union”. As Theodore Parker, an early American Transcendentalist observed:

*The arc of the moral universe is long, but it bends toward justice.*

While economics relies heavily on numbers and statistics it is invaluable indicator of the costs and benefits associated with “being on the right side of history”.



### REPRODUCTIVE RIGHTS AND PREVENTION



Half of the electorate or more is female, yet their reproductive rights are trampled upon unlike any other majority (or minority). It is bewildering that 42 years after *Roe v. Wade*, the United States Supreme Court’s landmark decision that granted women the right decision to have an abortion, this issue is still being contested. Back then, the Court ruled 7–2 that a right to privacy under the due process clause of the 14th Amendment extended to a woman’s decision to have an abortion, but that this right must be balanced against the state’s two legitimate interests in regulating abortions: protecting prenatal life and protecting women’s health. Yet, with the success of Republicans in the midterm elections and the passage of

Tennessee’s anti-abortion amendment, we can expect ongoing efforts to ban abortion and advance the “personhood” rights of fertilized eggs, embryos and fetuses. The most recent attempt was the surreptitious insertion of an anti-abortion rider in the Justice for Victims of Trafficking Act before the Senate this past month.

But it is not just those who support abortion rights who have reason to worry. Anti-abortion measures pose a risk to all pregnant women, including those who want to be pregnant. Such laws are increasingly being used as the basis for arresting women who have no intention of ending a pregnancy and for preventing women from making their own decisions about how they will give birth.

How one might ask?

#### THE STATES vs. PREGNANT WOMEN

Based on the belief that he had an obligation to give a fetus a chance for life, a judge in Washington, D.C., ordered a critically ill 27-year-old woman who was 26 weeks pregnant to undergo a cesarean section, which he understood might kill her. Neither the woman nor her baby survived.

In Iowa, a pregnant woman who fell down a flight of stairs was reported to the police after seeking help at a hospital. She was arrested for “attempted fetal homicide.”

In Utah, a woman gave birth to twins; one was stillborn. Health care providers believed that the stillbirth was the result of the woman’s decision to delay having a cesarean. She was arrested on charges of fetal homicide.



In Louisiana, a woman who went to the hospital for unexplained vaginal bleeding was locked up for over a year on charges of second-degree murder before medical records revealed she had suffered a miscarriage at 11 to 15 weeks of pregnancy.

Florida has had a number of such cases. In one, a woman was held prisoner at a hospital to prevent her from going home while she appeared to be experiencing a miscarriage. She was forced to undergo a cesarean. Neither the detention nor the surgery prevented the pregnancy loss, but they did keep this mother from caring for her two small children at home. While a state court later found the detention unlawful, the opinion suggested that if the hospital had taken her prisoner later in her pregnancy, its actions might have been permissible.

In another case, a woman who had been in labor at home was picked up by a sheriff, strapped down in the back of an ambulance, taken to a hospital, and forced to have a cesarean she did not want. When this mother later protested what had happened, a court concluded that the woman's personal constitutional rights "clearly did not outweigh the interests of the State of Florida in preserving the life of the unborn child."

Anti-abortion reasoning has also provided the justification for arresting pregnant women who experience depression and have attempted suicide. A 22-year-old in South Carolina who was eight months pregnant attempted suicide by jumping out a window. She survived despite suffering severe injuries. Because she lost the pregnancy, she was arrested and jailed for the crime of homicide by child abuse.

These are not isolated or rare cases. Last year, a peer-reviewed study documenting 413 arrests or equivalent actions depriving pregnant women of their physical liberty during the 42 years between 1973, when *Roe v. Wade* was decided. In a majority of these cases, women who had no intention of ending a pregnancy went to term and gave birth to a healthy baby. This includes the many cases where the pregnant woman was alleged to have used some amount of alcohol or a criminalized drug.



Since 2005, an additional 380 cases have been identified, with more arrests occurring every week. This significant increase coincides with what the Guttmacher Institute describes as a "seismic shift" in the number of states with laws hostile to abortion rights.



The principle at the heart of contemporary efforts to end legal abortion is that fertilized eggs, embryos and fetuses are persons or at least have separate rights that must be protected by the state. In each of the cases identified, this same rationale provided the justification for the deprivation of pregnant women's physical liberty, as well as of the right to medical decision making, medical privacy, bodily integrity and, in one case, the woman's right to life.

Many of the pregnant women subjected to this mistreatment are themselves profoundly opposed to abortion. Yet it was precisely the legal arguments for recriminalizing abortion that were used to strip them of their rights to dignity and liberty in the context of labor and delivery. These cases, individually and collectively, highlight what is so often missed when the focus is on attacking or defending abortion, namely that all pregnant women are at risk of losing a wide range of fundamental rights that are at the core of constitutional personhood in the United States.

If we want to end these unjust and inhumane arrests and forced interventions on pregnant women, politicians and the states need to stop focusing only on the abortion issue and start working to protect the personhood of pregnant women. The over-riding principle should be that at no point in her pregnancy does a woman forfeit her civil and human rights.

**THE DEMOGRAPHICS** It's been widely observed that in recent elections men have leaned Republican and women Democratic. A key element of that gender gap is often assumed to be a difference in attitudes to women's reproductive rights.

The perception that men and women have divergent views on abortion has persisted over time. The line popularized by Gloria Steinem that "if men could get pregnant, abortion would be a sacrament" proposes that a male-female divide over this social issue is more or less a biological given.



The polling confounds such stereotypes. The General Social Survey, which has been tracking American opinions for decades, includes the question of whether a woman should be allowed to get an abortion if she “wants it for any reason.” In 17 of the 23 years that this question has been asked, ironically, men have answered “yes” to a greater extent than women. The average difference was about 1.5 percentage points—a small but consistent gender gap, though not the one people seem to expect.

So what is it about women that makes them less enthusiastic than men about abortion on demand? Again, the survey offers answers. Using a common statistical method, one can determine the effect of different variables on an outcome of interest—in this case, the odds that someone will agree or disagree with the question. This reveals that the difference between men and women is not, in fact, likely because of their sex, but because of other factors that happen to correlate with sex.



As it happens, religious attendance and biblical literalism, as well as political ideology, were all highly predictive of attitudes toward abortion. Being Hispanic was also associated with being opposed to abortion on demand (even allowing for other variables, such as religiosity).

In contrast, sex and age were usually not independently significant. Probably the mediating factor here is that, according to most surveys, women tend to be more religious than men.

While, on the whole, there isn't a major difference in the sexes' attitudes toward abortion, there is one when men and women are separated by ideology. The data since 2000 reveals that on the liberal end of the ideological spectrum men are consistently less supportive of abortion on demand than women. On the conservative end of the spectrum, it's women who like abortion on demand less than men do.

In other words, conservative women are the most anti-abortion segment of the population, and liberal women are the most in favor of abortion rights. You might say that the more significant difference here is not between men and women, but among women.



## ABORTION'S HANDMAIDEN—BIRTH CONTROL

Aside from the obvious right to have dominion over their own bodies, the economic and societal benefits are so clearly on the side of women, families and the nation as a whole, it is staggering that anyone would see otherwise. Let's look at the pros and cons:

### Pros

- Committing society and the parents of an unplanned pregnancy is an obvious and staggering misallocation of scarce resources. From day care to the monthly grocery bill, the cost of raising a child is climbing at a rate that many families can't keep up with. It will cost an estimated \$241,080 for a middle-income couple to raise a child born last year for 18 years, according to a U.S. Department of Agriculture report. That's up almost 3% from 2011 and that doesn't even include the cost of college.
- People who are allowed to choose whether or not to begin a family at a certain point in their lives are not consigned to having their economic lives disrupted or perhaps permanently affected forevermore by an unplanned pregnancy.
- The societal costs are equally burdensome as unwanted children or those from broken homes are more likely to become incarcerated and/or a crime blotter statistic.

### Cons

- Religious prohibitions

It may seem like a tautological truth, but there is a distinct nuance to be grasped in that the whole of society is better off when each of us is better off.

### A few depressing facts:

- American teenagers become pregnant at a rate of about one a minute.
- Some 82 percent of births to teenagers in the U.S. are unplanned.



- American and European teenagers seem to be sexually active at roughly similar rates, although Americans may start a bit earlier. But the American teenage birthrate is three times Spain's rate, five times France's, and 15 times Switzerland's.
- Young Americans show a lack of understanding of where babies come from. Among teenagers who unintentionally became pregnant, the Centers for Disease Control and Prevention found that the most cited reason for not using contraception was "I didn't think I could become pregnant." And 18 percent of young men somehow believed that having sex standing up helps prevent pregnancy, according to the National Campaign to Prevent Teen and Unplanned Pregnancy.
- A teenager who has a baby often derails her own education and puts the child on a troubled trajectory as well. In Oklahoma last year, there was one family where the matriarch had a baby at 13, her daughter had a baby at 15, and that child, in turn, gave birth at 13. That's how poverty replicates.
- Medicaid spends an average of \$12,770 for a birth. Yet we spend only \$8 per teenage girl on programs to avoid pregnancy. In financial terms, it's idiotic. In human terms, it's a tragic.



Isabel Sawhill of the Brookings Institution has written an important new book, "Generation Unbound: Drifting Into Sex and Parenthood Without Marriage." She notes that most young single moms in America don't intend to become pregnant but drift into it fatalistically, partly because they rely solely on condoms or other less reliable forms of birth control.

Condoms are 82 percent effective in preventing pregnancy in any one year, according to the C.D.C. But that means that after four years of relying only on condoms, most women will have become pregnant at least once.

So Sawhill advocates a move to what she calls "childbearing by design, not by default." That means providing long-acting reversible contraceptives, or LARCs, to at-risk girls and young women who want them. LARCs are IUDs, or implants that can remain in place for years, and the failure rate is negligible.

Teenage birthrates in America have already dropped by more than half since 1991. But Sawhill calculates that if LARCs became much more widespread, the proportion of children born outside marriage could drop by a quarter, and the proportion of children who are poor would drop sharply as well.

The American Academy of Pediatrics recently urged doctors to recommend LARCs for sexually active teenagers. One obstacle is the initial cost — \$500 to \$1,000 — so that many young people can't afford them.

A study in St. Louis offered free birth control, including LARCs, to sexually active teenagers and found that pregnancy rates for them plunged by more than three-quarters. Abortions fell by a similar rate.

The Affordable Care Act provides free access to all forms of contraception, which helps. But many pediatricians aren't trained in inserting LARCs.



So we need more women's health clinics, yet, instead, some are being closed as casualties of abortion wars. Moreover, states and schools should embrace comprehensive sex education, teaching contraception, the benefits of delaying sex and, also, the responsibility of boys.

Birth-control programs would save the government money, chip away at poverty, reduce abortions and empower young people. Yet, neither Democrats nor Republicans seem particularly interested in these investments. The inflation-adjusted sum spent on Title X family planning in the United States has fallen by two-thirds since 1980. In the end, the furor over abortion and birth control in America and how we squander our resources comes down to one word: lamentable.

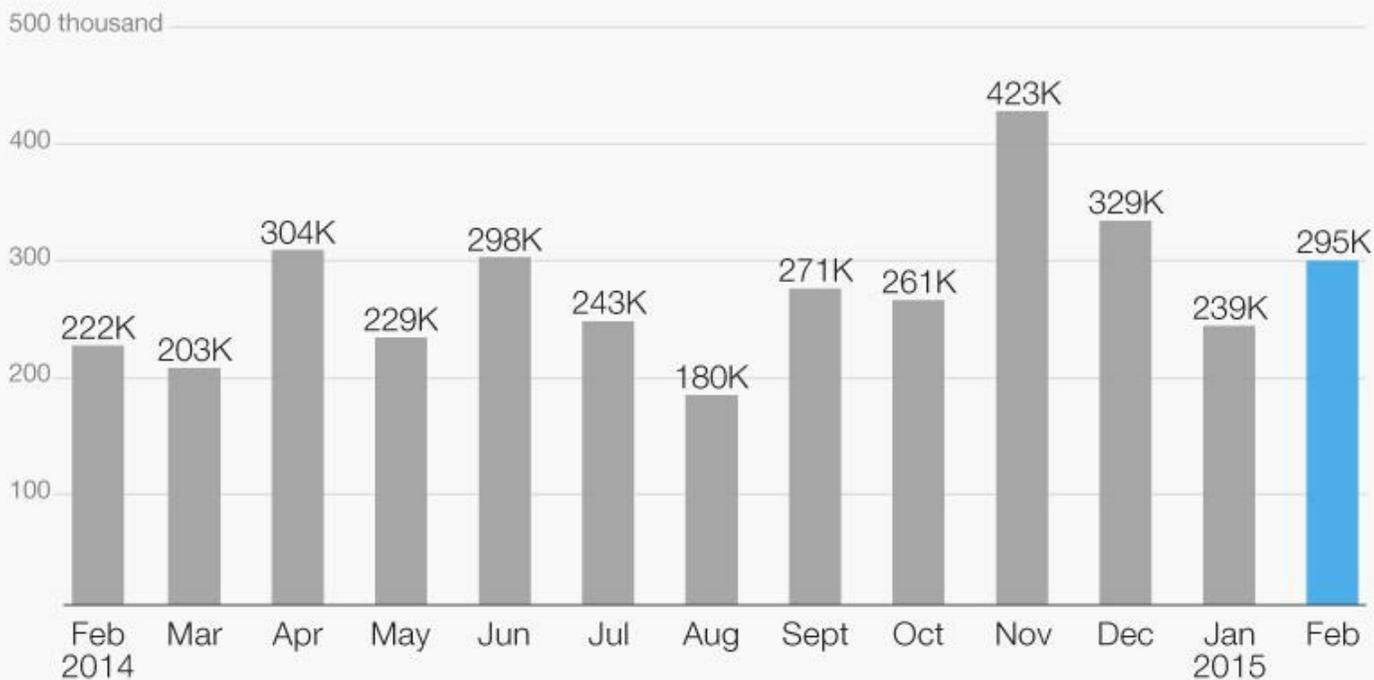
# GOOD NEWS: UNEMPLOYMENT AT LOWEST IN 7 YEARS



The winter weather didn't cool the job market in February. The U.S. economy added 295,000 jobs in February, which crushed expectations. February's job growth shows how far the economy has come in a year. It's the 12th straight month that the economy has gained over 200,000 jobs, and the unemployment rate fell to 5.5%.

That's the lowest unemployment rate since May 2008—before the financial crisis. Unemployment has come a long way from a year ago when it was 6.7%.

**What about wages?** As more Americans return to work, the question now is when wages will pick up. Average weekly wages only rose 2% in February compared to a year ago. In a healthy economy, wages gains are between 3.5% and 4%. The snail-pace wage gains are a key reason why many folks still aren't feeling off better during this recovery. Wages are quickly becoming the focal point for the economy's health. The Federal Reserve wants to see better wage growth before it raises its key interest rate, which will have a big impact on the economy and markets. If job growth continues, wages should speed up too, many economists argue. But February's jobs report told the same tale: excellent job gains in recent months with lackluster wage growth.



SOURCE: BUREAU OF LABOR STATISTICS

**Where the jobs are:** Job gains were across the board in many businesses, including retail, health care, and business services. Retail businesses added 32,000 jobs last month, continuing their role as leaders in the jobs recovery. On the downside, retail tends to have a higher concentration of low-wage jobs than other sectors.



# When will wages pick up?

4

Goal 3.5%



SOURCE: BUREAU OF LABOR STATISTICS

One warning sign is that energy companies are starting to scale back employment because of low oil prices. Energy jobs fell for a second straight month in February, although the drop was modest. The energy sector has high-paying jobs, and it played a big role in job growth during the recovery.



But many economists say falling oil and gas prices are positive for the economy overall. The national gas average was as low as \$2 a gallon at the start of the year, leading the government to predict American households will save \$750 this year on fuel. Still, it is unclear whether the energy sector will carry the job growth baton if energy prices don't rebound a bit more.

One solution could be health care. It had another strong month, gaining 24,000 jobs. Obamacare has undoubtedly driven some of that job progress. But there's a jobs caveat to Obamacare: many employers are trying to cut back hours on part-time employees so they don't have to offer them health insurance.

After years of business owners having an abundance of job applicants to choose from, now they will have to recruit and retain workers. Still, the overall takeaway is that February showed strong signs of America's economy heading in the right direction.



# MORTY'S MAILBAG

In addition to my newsletter, here, I happen to write a monthly column for The Ocean Hills Observer, a house organ for the Ocean Hills Country Club. This is a reprint from that column.



**Q. My wife and I are familiar with the benefits of a reverse mortgage. But, I never here anyone discuss the downsides. Are there any?**

**A. I think like you and your wife most of us are aware of the manifold benefits of a reverse mortgage: No more monthly mortgage payments as long as you reside in your home, equity proceeds are tax-free, and it is a non-recourse loan wherein one can never owe more than what the house is worth. Sounds great! And, it is—for most people.**



Yet, about 10% of reverse mortgage borrowers go into default. The problems for some older Americans who were short on cash turned to reverse mortgages to solve their money troubles. Their undoing came about because they took their payment as a lump sum and spent the cash too freely. They didn't have enough cash to pay their property taxes, insurance and homeowner's association bills and were forced into default. As of last September, nearly 10% of reverse mortgage borrowers had defaulted for this reason alone.

To mitigate this, new federal rules which went into effect this past October have made reverse mortgages safer. They discourage homeowners from taking lump sum payouts by reducing the payment a borrower receives if they take the entire amount immediately. Homeowners who choose the lump sum option could see their payouts reduced by 10% to 18%, depending on underwriting factors. So the payout on a \$140,000 reverse mortgage would go down to \$125,000 or so if the borrower chooses a lump sum.

Monthly payments usually work out better anyway, especially for those who live longer. Even if payments—plus interest—to the borrower exceed the value of the home, the payments keep coming.

Yet it will still cost you. Reverse mortgages are expensive. There's a 2.5% origination fee on the first \$200,000 borrowed for some loans, an upfront mortgage insurance fee of 2%, and a host of other fees that can push the extra costs to \$15,000 or more for a \$200,000 loan. In addition, lenders tack on interest charges every month, plus a servicing charge of up to \$35 a month and an annual FHA insurance premium of 1.25% of the mortgage balance. At the current interest rate of about 5% for a reverse mortgage, plus the service charge and insurance, a lump sum mortgage balance of \$100,000 would increase by about 6.6% a year and the debt would double in 11 years to \$200,000.

All of these counts against the residual value of the home, so there's less left for the estate when the home is finally sold to pay off the mortgage after the borrower either passes away or moves out.

Borrowers are still responsible for paying annual property taxes, homeowners insurance and any homeowner's association bills, those recurring expenses that got many homeowners into trouble in the past.

The new rules now require lenders to make sure borrowers have sufficient enough income from Social Security, pensions and other savings in order to afford both living expenses and these charges. If borrowers run a risk of defaulting, they are required to fund escrow accounts to cover the property taxes and other routine expenses on the home.



One issue the new rules don't address, however, is that many couples take out reverse mortgages in the name of the older of the two spouses, in order to maximize payouts. Cash benefits are based on a borrower's life expectancy. A 62-year-old,

for example, may only be able to get a payout of about \$140,000 on a \$300,000 home, while a 73-year-old would get \$147,000 and an 82-year-old \$163,000, according to a National Reverse Mortgage Lenders Association calculator.



When the spouse on the deed dies or moves into a care facility, lenders take possession of the home—often leaving the spouse not on the loan out in the cold. There have been instances in which surviving spouses were evicted from their houses; some folks didn't even know they were taken off the deed and found out only after their spouse died. The easy fix for this is to wait until both spouses are at least 62 years of age before taking out a reverse mortgage.

Reverse mortgages are counterintuitive and a little more complicated than regular mortgages, but nothing that can't be handled rather easily by a professional. Incidentally, I also do them.

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 be identified as a "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](mailto:morty@mortgagestraightTalk.com)

## RATE SUMMARY

Despite wild swings in the equities markets, mortgage rates evinced little overall change

Conforming programs—no change ↔

Jumbos—up an 1/8<sup>th</sup> ↑

Governments—an 1/8<sup>th</sup> better ↓

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:

[www.mortgagestraighttalk.com](http://www.mortgagestraighttalk.com) Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.



## MORTGAGE MIRTH



Change is inevitable, except from a vending machine.