Newsletter Vol. 13 Issue 6

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IN THIS MONTH'S ISSUE

BEST BUYS THIS MONTH

- Conforming 30 yr. Fixed @ 3.250%
- Conforming 5/1 ARM @ 2.375%
- Jumbo 30 yr. Fixed @ 3.750%
- Jumbo 5/1 ARM @ 2.750%
- FHA 30 yr. Conforming Fixed @ 3.000%
- FHA 15 yr. Conforming Fixed @ 2.500%
- VA 30yr. Conforming Fixed @ 3.125%
- FHA 15 yr. Conforming Fixed @ 2.500%
- VA 15 yr. Conforming Fixed @ 2.500%
- Refi Plus 30 yr. Fixed @ 3.375%

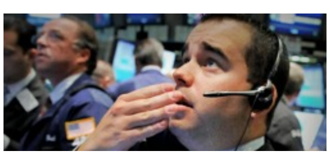
Conforming to $417,000 < High Balance Conforming $417,001 to $580,750 < Jumbo

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

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Europe and China Worry Investors
(Week ending 5-6-2016)



The news released over the past week caused investors to reduce their outlook for economic growth in Europe and China. On Tuesday, the European Commission, the executive body of the European Union, cut its growth forecast for the eurozone for 2016 and 2017. The data from China released on Tuesday also was disappointing. China's PMI manufacturing index fell more than expected to a level which suggests that the sector is contracting. When global economic growth slows, it reduces the outlook for future inflation, which is positive for mortgage rates.

The most highly anticipated economic report of the month contained just minor surprises. Against a consensus forecast of 200K, the economy added 160K jobs in April, which was the lowest level since September 2015. Downward revisions to prior months subtracted 19K.

Strength was seen in health care, while the retail sector was weak.

The unemployment rate remained at 5.0%. Average hourly earnings, an indicator of wage growth, were 2.5% higher than a year ago. The weakness in job gains was offset by the strength in the wage data, and the report caused little change in mortgage rates.

Retail Sales Jump (Week ending 5-13-2016)

The economic data released over the past week was generally better than expected. Strength was seen in retail sales, the labor market, and consumer sentiment. As a result, mortgage rates ended the week a little higher, but they remain near the best levels of the year.

After a slow start to the year, Friday's report on retail sales went a long way to increase optimism about stronger economic growth during the second quarter. April retail sales, excluding the volatile auto component, jumped 0.8% from March, which was far more than expected. It was the largest monthly gain in nearly a year. The results for March also were revised higher.

Despite what appeared to be a weak report on jobless claims, this week's labor market data was encouraging. A spike in jobless claims was seen, but this was due to a strike at Verizon. Nice gains were seen in the JOLTS report, which measures job openings and labor turnover rates. The JOLTS report helps to provide a broader picture of the performance of the labor market. Job openings in March increased to levels which were very close to record highs. The "quits rate" also was at levels consistent with a healthy labor market. Employees are more likely to voluntarily leave their jobs if they are confident that they will find a better job.

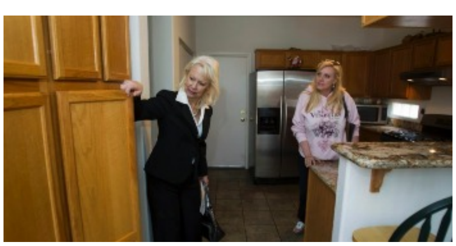
Shift in Outlook for Fed Policy (Week ending 5-20-2016)

Speeches made by Fed officials during the first part of the week alerted investors that the Fed may be much closer to another federal funds rate hike than investors expected. On Wednesday, the release of the minutes from the April 27 Fed meeting confirmed this. In the minutes, Fed officials made it clear that they will consider raising rates as soon as June if economic conditions continue to improve. Investors currently view tighter Fed policy as negative for mortgage rates, so rates rose as the Fed's position became better understood.

One factor supporting the case for tighter monetary policy is stronger than expected improvement in the recent housing data. Existing home sales in April rose for the second straight month and were 6% higher than a year ago. Inventories of existing homes available for sale jumped 9% from March. Sales of existing homes make up about 90% of the market. Housing starts, an indicator of future sales activity for newly built homes, increased 7% in April from March.

Complicating the decision for the Fed a little is the recent inflation data. The core consumer price index (CPI) in April was 2.1% higher than a year ago, down from a multi-year high of 2.3% in February. After rising significantly for several months, core inflation has declined for the last two months. If this trend continues, it would make the Fed less likely to raise rates.

Huge Home Buying Activity (Week ending 5-27-2016)



Despite stronger than expected housing data and a nice rally in the stock market, investors showed significant demand for bonds, including mortgage backed securities (MBS). As a result, prices for MBS improved, causing mortgage rates to end the week a little lower.

The housing data released this week showed that home buyers were busy in April signing contracts to purchase homes. The market for both previously owned homes and newly built homes saw their best activity in years. Improved labor market conditions and low mortgage rates are a great combination to support a very active housing market.

The Pending Home Sales Index, which measures the number of contracts signed to buy previously owned homes, jumped in April by 5% over March, to the highest level of activity since February 2006. Similarly, the New Home Sales report, which measures the number of contracts signed to buy newly built homes, surged by 17% over March, to its best level since January 2008.

The Fed has stated that the decision on when to next hike the federal funds rate will depend on the incoming economic data. This week's data certainly increases the chance of a rate hike in the near term. Besides the strong housing data, Durable Goods orders rose in April by much more than expected. Orders jumped 3.4% from March when an increase of only 0.5% was expected. March orders were revised higher as well. Although the durable orders data is volatile from month to month, the April data does show that demand for big ticket items is high and that there is confidence in improved future economic activity

CUSTOM MORTGAGES

After 12½ years and 150 issues, coming up with new topics that interest's one's readership is a challenge. Sometimes you build on previous ones (as new information warrants) or revise old ones.

Today's topic is reworking a familiar theme of mine—not paying the front-loaded costs associated with a refinance for a second, or more times. I touched upon this topic back in November 2010 (Volume 7, Issue 11) "The Second Biggest Mistake Borrowers Make" and again in August 2013, (Volume 10 issue 8) "The Most Common Mistake Homeowners Make". They were among my most popular issues and ones that garnered the most response.

In brief, I explained that the most common mistake that borrowers make was to refinance from a mortgage with a higher interest rate into one with a lower interest rate but not one that reduces the term of their loan. That is, they were refinancing out of one, with a 30-year term, into another one with an identical term. Amortizing mortgages have equal monthly payments, but with very disparate amounts going toward interest and debt reduction in the early years of a loan because they are heavily front-loaded on interest. So, borrowers who do this are getting very little traction on debt reduction since they are paying the up-front interest all over again when they refinance from one mortgage to another with the same term. Although the borrower may be saving $200, $300, or more dollars per month as compared to what they were paying, they have done nothing to reduce their principal. In many cases, borrowers slightly compound their error by financing the cost of the new mortgage into the loan.

The solution I explained was to always gravitate to a shorter term when refinancing (providing one can afford the higher mortgage payment that usually accompanies the shorter term). Not only does it allow one to pay off one's mortgage sooner, but one saves tens of thousands, if not hundreds of thousands of dollars in interest expense over the term of the mortgage. An added benefit of a shorter term is that in most cases the shorter the term, the lower the interest rate.

Some days one feels truly prescient because it is as though the mortgage gods read my newsletter and have done something to benefit borrowers. Within the past year, there are now at least a couple of

lenders that have begun offering what one calls "customized terms" and what another is awkwardly affixing a new appellation to the concept labeling it a "yourgage" (<u>your</u> mortgage on <u>your</u> terms). If you are like most people, you have a 30 year mortgage. It may be at a fixed rate or it may be and an adjustable rate (ARM). Have you ever wondered why there aren't 27 year mortgages or 19-year ones or even one that is amortized over say 8 years? Well, now, those options are available. Pick any term between 8-30 years and I can get it written. To be clear, if you have been paying on a 30-year mortgage for let's say anywhere between 1 year and 22 years it would likely behoove you to refinance into a mortgage with a shorter term. The reasons for this are often a lower rate (rates hit 3 year lows a month ago), a lower payment, and you avoid the high amount of interest that goes toward debt service in the early years of a 30 year mortgage.

THE CUSTOMIZED MORTGAGE TERM

I have at least three lenders that accommodate borrowers in this regard. All will only do it for a CONFORMING LOAN AMOUNT, meaning any loan amount under $580,750 in San Diego County and as high as $625,500 in Los Angeles and Orange County. One, however, will do this only for FIXED RATE PRODUCTS (no adjustable rate mortgages) but the other two will write them for ARMs, as well. As an example, let's say that you have a 30 year mortgage that you have been making payments on for the past 9 years and you want to refinance at today's lower interest rates. You'd like to refinance into say a 15 year term, but the payments are a bit too steep for your comfort zone (or perhaps your Debt to Income (DTI) ratio would be too high to qualify). So the easy and obvious answer would be to refinance into a mortgage with a 21-year term. Note: If you can afford it, you might want to go for a 20-year term as the rate would likely be an 1/8th cheaper in rate. The dual benefit in this instance is that one ends up with not only a lower rate, but a lower payment, as well.

RETIREMENT PLANNING In another instance, you might want the term to conform to the age at which you are likely to retire. It's always nice to NOT have a mortgage payment at retirement since the individual is presumably making less money because they are no longer working. So, let's say you are age 52 and you plan to retire at age 65. Further, you have been making payments on your 30 year mortgage for 13 years and you can afford the larger payment that one would likely incur with a shorter term. Back in 2003, when you bought your home for $625,000, putting 20% down, left you with a loan balance of $500,000 at a interest rate of 5% (the going rate back then). Your payments on a 30 year fixed were $2684/month, Principal and Interest (P +I). After 13 years of making your mortgage payment, your loan balance is now $368,364 and you have 17 years left on your mortgage term. It would be of benefit to recast your loan into one with a 13 year term because you will not only end up with a lower rate and save tens of thousands of dollars of interest over the term of the loan. The payment on a 13 year term would at today's going rate is 2.5% and the payment would be $2768, just $84 more per month than what you are currently paying. The net benefit is that you would have a rate that was half of what your current rate was, you would be saving tens of thousands in interest, own your home free and clear 4 years sooner and all with only an $84/month bump in your payment.

Customizing your mortgage terms is rather simple: You can select from terms in five range groups as follows: 30-26 years, 25-21 years, 20-16 years, 15-11 years, or 10-8 years. The ranges dictate the interest rate for the range, with the shorter terms having the lowest interest rates.

Note: These "flex term" products are limited to conventional mortgages, with one exception—a couple of lenders offer them for their DU Refi Plus and LP Relief or Open Access programs (for borrowers who are upside down in their mortgage—essentially owing more than the house would appraise for).

Bottom line: There's no longer any reason to make "The Second Biggest Mistake Borrowers Make" or "The Most Common Mistake Homeowners Make". And remember, you heard it here, first.

P.S. In case you were wondering about what is "The Biggest Mistake Borrowers Make"…it's that they shop for an interest rate rather than shopping for a mortgage broker, but that's a whole other story.

FED OFFICIALS TO WALL ST. - WE'RE RIGHT, YOU'RE WRONG

The Federal Reserve has a clear message for Wall Street: Get on the same sheet of music. Prior to this week, Wall Street had all but written off the chance of even a single rate hike this year. That's despite the fact that the Fed had forecast two rate hikes for 2016 even though members expressed concern about the global economy in March.

The Fed doubled down on that view according to the minutes released on May 18th of its April meeting, where it reiterated that there's a strong chance of a rate hike in June if the economy stays on track.

"I was surprised that the market wasn't taking more signals from what Fed speakers were actually saying," New York Fed President William Dudley told reporters. "The market was not putting in a sufficient probability" of a June rate hike. Dudley's comments echoed what Fed leaders discussed. Essentially, Wall Street wasn't taking the forecast seriously enough.

"Some participants were concerned that market participants may not have properly assessed the likelihood of an increase in the target range at the June meeting," according to the Fed's minutes released Wednesday.

In March, the Fed did lower expectations for rate hikes to two from four, which put it in line with Wall Street's view at the time. Then investors slashed their expectations even further: to zero. The minutes and commentary from leaders like Dudley has now caused investors' rate hike expectations to shoot up.

A slew of good economic news released recently is helping the Fed make a case for raising rates in June. Strong retail sales, a pick up in wage growth, rising predictions for economic growth and a recovery in manufacturing have all come around in May. The Atlanta Fed's forecast for economic growth in the second quarter has risen to 2.5% from the initial estimate of 1.8%. That would mark a spring bounce back as first quarter growth was an anemic 0.5%.

Bottom line: Expect to see rates rise a quarter point come June.

RATE SUMMARY

In the past month, there was nil change
Conforming programs—nil change—only two programs worsened:
***Conforming 15 yr. fixed & High Balance conf. Fixed by an 1/8th ↑**
***Jumbos— no change↔**
***Governments—nil change only the 30 yr. VA fixed conforming went up an 1/8th↑**

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.

MORTY'S MAILBAG

There were no letters in the mailbag this month.

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

MORTGAGE MIRTH

I intend to live forever.

So far, so good.