

Late Summer 2005

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30 Yr. Fixed Conf.	5.5%
30 Yr. Fixed Jumbo	6%
5/1 ARM Conf.	5.125%
5/1 ARM Jumbo	5.125%
Prime Rate	6.25%
MTA	2.865%

All rates are priced at par, that is, at the wholesale level with no rebate.

Happy What?



to experience with their 2nds. For these very same people and others, being able to pay off a 1st or 2nd mortgage in a shorter period of time without increasing one's payment would be welcome news. One way to do this, coincidentally, is this month's topic:

BI-WEEKLIES.

"THE MOST POWERFUL FORCE IN THE UNIVERSE IS COMPOUND INTEREST."

--Albert Einstein



Einstein's superlative assessment is due to the fact that it grows logarithmically and it becomes a juggernaut over time and eventually an irresistible force. It is the Law of Compound Interest that dictates that to repay a 30-year fixed-rate loan of \$300,000 @ 6.0%, one will have to remit \$647,515.



As there are no holidays this month for me to suggest that you celebrate or enjoy, permit me to observe that there's an unsung holiday for Moms and Dads which perennially occurs in the next 30 days or as it's commonly known "Back to School". (Is that sound I hear across the land a collective sigh of relief)?

THIS MONTH'S TOPIC

Last month, as expected, the Fed raised the Prime Rate a quarter point to 6.25%. The market currently believes that there is a 100% chance of another quarter point bump at each of the next two meetings (August 9th and September 20th) and an 80% chance of another 25 basis point hike come November. On the other hand, none of this should come as too much of a surprise since we've enjoyed the lowest mortgage rates in 45 years for the past 4½ years. If all of this comes to pass, it will mark the 12th straight escalation in the Prime Rate in less than 18 months. And, as I reported back in January, the year will close out with the Prime Rate at 7% and a lot of people with HELOCs (Home Equity Lines of Credit) will be unhappier still with the "creeping" payment shock they're beginning



Fixed Mortgage Loan Calculator

Loan Information:

Mortgage amount:

Term: 30 years

Interest rate:

Monthly payment : \$1,798.65

Total payments : \$647,515.44

Total interest : \$347,515.44

Prepayments :

Type : None

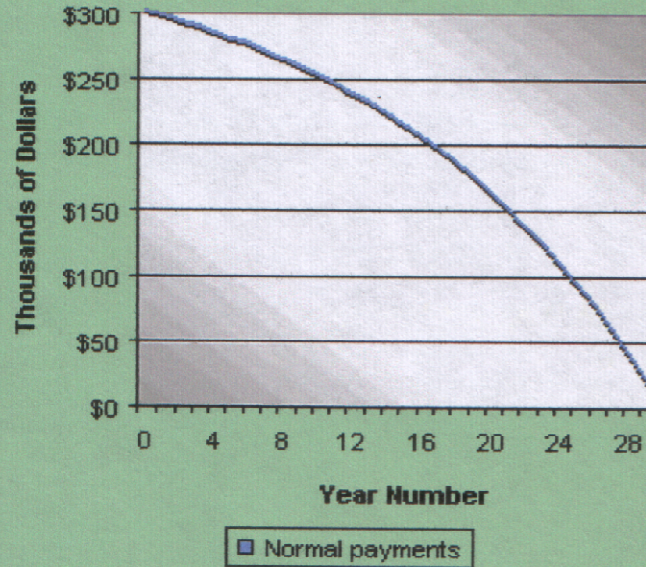
Amount:

Start with payment:

Savings : \$0.00

Principal balances

Total payments



Report amortization schedule by year

Report amortization schedule by Month

Calculate

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So, the best way to reverse its effects is to shorten the time frame, but as we saw last month when we discussed “TERMS” not everyone is able to afford the payment increase associated with moving from a 30-year mortgage to a 20-year or 15-year. A good alternative is what is known as a BI-WEEKLY payment. It enables one to PAY OFF A 30-YR. MORTGAGE IN 24 YEARS, A 20 YEAR, IN 17, AND A 15, IN 13 AND SAVE TENS OF THOUSANDS OF DOLLARS in interest without an increase in your payment. The bi-weekly works in the following way, instead of paying your mortgage monthly, you pay HALF your monthly payment EVERY TWO WEEKS. Because the lender is getting HALF their money back in HALF the time, the interest compounds at a slower rate AND because there are 52 weeks in a year the

borrower is in effect making 26 half payments per year OR the equivalent of 13 monthly payments instead of the usual 12. If this sounds onerous, it really isn't, you can have your bank or the mortgagee's bank set-up an auto pay plan that drafts out of your checking account every two weeks OR (for many of you, easier still) make 1 extra mortgage payment per year.



So that you have some feel for and dollar approximation of what I'm talking about here, let's revisit our earlier example of a \$300,000 loan for 30 years @ 6%. By going WITH A BI-WEEKLY PAYMENT you would SAVE \$76,417 over the life of the loan and OWN YOUR HOME in 24 YEARS (instead of 30).



Fixed Mortgage Loan Calculator

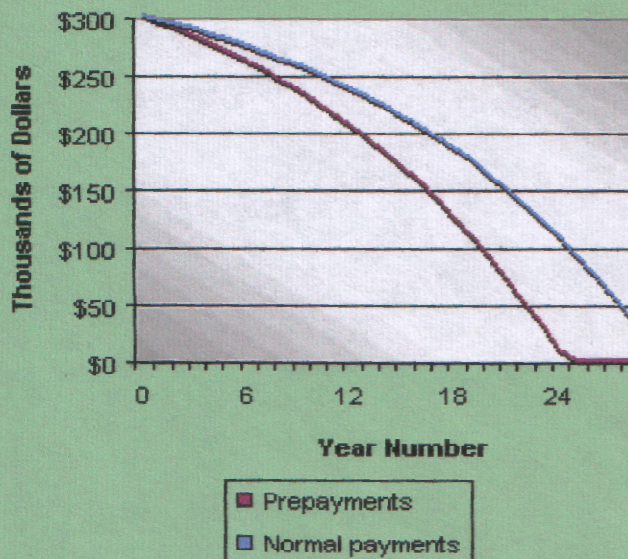
Loan Information:

Mortgage amount:
Term: 30 years
Interest rate:
Monthly payment: \$1,798.65
Total payments: \$571,097.76
Total interest: \$271,097.76

Prepayments:

Type: Yearly
Amount:
Start with payment:
Savings: \$76,417.68

Principal balances Total payments



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If you were to **COMBINE A BI-WEEKLY PROGRAM WITH** shifting to A **15-YEAR mortgage** from a 30, the interest savings is substantial--some **\$214,000** on a loan amount of **\$300,000** (**\$347,514 vs. \$133,949**) and own your home free and clear in 13 years.



Fixed Mortgage Loan Calculator

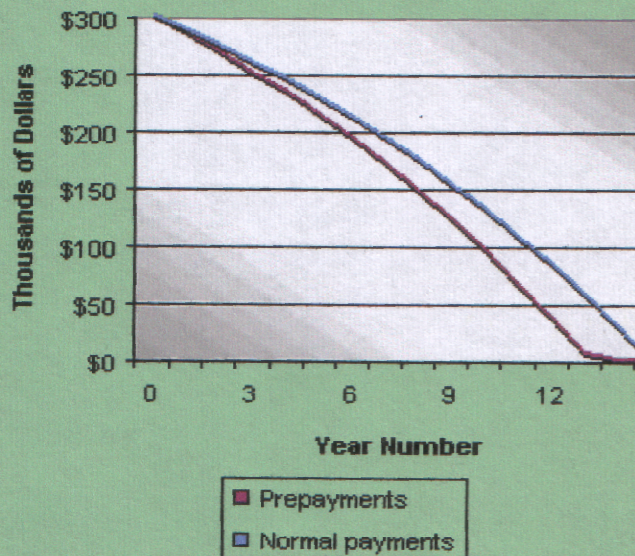
Loan Information:

Mortgage amount:
Term: 15 years
Interest rate:
Monthly payment: \$2,531.57
Total payments: \$433,949.98
Total interest: \$133,949.98

Prepayments:

Type: Yearly
Amount:
Start with payment:
Savings: \$21,732.81

Principal balances Total payments



Report amortization schedule by year Report amortization schedule by Month

Calculate View Report

If this interests you, ask me about it. Or, if you'd like to see the impact as regards you own personal situation use the loan calculator at my website. Simply, enter your loan balance, interest rate and mortgage term.

1) Then go to **Prepayments** use the dropdown menu for **Type**, select **Yearly**. 2) For **Amount** enter your Monthly Mortgage Payment. 3) Hit the **Calculate** button down below and voila your savings will appear where it says Savings. The real impact, however, is to be seen in the graph to the right because it shows how many years sooner the loan has been paid off.

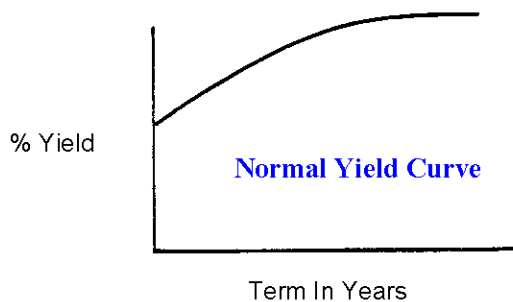
ASK MORTY?



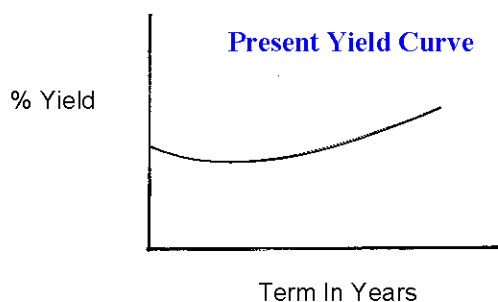
Finally, a question for Morty:

In past newsletters you've spoken about "an inverted yield curve". What is it? And of what significance is it to borrowers?

The yield curve is the gradation of interest rates from short term to long term. It usually slopes upward and to the right; that is, with shorter term mortgages having lower interest rates and consequently smaller yields and longer-term mortgages having higher rates and higher yields.



Typically in economics, everything comes down to risk vs. reward. In the normal course of events, one would naturally expect to pay a higher interest rate the longer the term of the loan because the lender's money is at risk for a longer time. Recently, we have had pricing anomalies in the mortgage markets whereby the interest rates for adjustable rate mortgages (ARMs) with fixed-rate terms of 1 year were more expensive than 3/1 ARMs and both were more expensive than 5/1 ARMs.



The yield curve is inverted when short-term yields are higher. Any time one can borrow money for longer terms at a lower rate than shorter terms, it behooves one to do so because as the proverbial wisdom goes, "a dollar today is worth more than one tomorrow". Lately, the price differential between the 7/1 ARM and the 10/1 ARM and a 30-year fixed-rate mortgage has been as slight as an 1/8 of a percent. An inverted yield curve is a concern because many analysts including those at the Fed, say an inverted yield curve is often a precursor of real trouble. As one Fed watcher put it: "Nobody, wants to invert the yield curve because you know there is a risk of a recession."

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. (See front of issue for phone and fax numbers). Morty's email address is Morty@MortgageStraightTalk.com

THANK YOU ALL

My business has grown substantially since its inception. As I'm fond of saying: "Business is good because we do GOOD business! Evidently, you concur because better than 60% of my business comes from referrals. Again, thank you for your support.

NEXT ISSUE'S TOPIC:
EVERYTHING YOU NEED TO KNOW
ABOUT PREPAYS.