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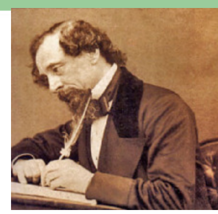
30 Yr. Fixed Conform. & Jumbo	6 & 6.375%
5/1 ARM Conform. & Jumbo	5.625 & 5.875%
Prime Rate	7.5%
MTA Index	4.863%
COFI Index	4.359%
Home Ownership Accelerator Index	4.716%

Morty's Bench Marks - 11/1/07

Above rates assume 30 day locks priced at par, that is, at wholesale with no rebate.

CURRENT EVENTS



Charles Dickens opened "A Tale of Two Cities" with the timeless line....

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way."

As frequent readers know, the economic events of this year, have mirrored the vivid contrasts of Dickens 'Tale' prior to the French Revolution. We've seen 400 point plus drops in the Dow Jones Industrials Averages followed, a month or two later, by new all-time highs, only to see 360 point dips 10 days later. We've seen available credit for conforming loans (under $417,000) and a paucity for those above; we've read reports of negative numbers for new jobs, one month, and a 100,000 plus swing the next; we've heard that inflation is contained while the bond market tanks and the dollar is in freefall.

WHERE DO WE GO FROM HERE?

We seem to be at crossroads where one path leads to recession and the other to inflation and devaluation. **Technically, two consecutive quarters of falling Gross Domestic Product (GDP) is what constitutes a recession**. Many think that a recession can be narrowly averted while others point to the "elephant in the room", a worsening housing market, and see little chance of avoidance with foreclosures rising, more mortgage interest rate resets looming, and oil prices persistently rising.

In contrast to this, the Labor Department reported that job growth for August was much stronger than initial estimates, easing fears of a recession. According to their economists, the Labor Dept. data suggests that while economic growth has indeed slowed this year and that hiring in the private sector has weakened considerably, the overall economy no longer appears to be on the verge of a recession. They claim there will not be a recession because employment growth will hold up and households will continue to boost consumption. Corporate earnings will hold up well and thereby support the stock market. The drop in the dollar will stimulate exports enough to cause the economy to avoid recession. In a BBC interview former Federal Reserve Chairman, Alan Greenspan, opined that there was less than a 50-50 chance that the U.S. economy would slip into a recession because as he saw it

7/8ths of the economy is doing just fine; it's just the housing sector that is suffering.

But, striking a note of concern, Fed Chairman, Ben Bernanke, in a speech before the New York Economic Club on October 15th, predicted that the weakness in the housing market "is likely to be a significant drag on growth in the current quarter and through early next year." Later that day, in a speech at Georgetown University, Henry Paulson, U.S. Treasury Secretary, warned, "The housing decline is still unfolding, and I view it as the most significant current risk to the economy."

In the meantime, the Dow took a 367-point swan dive on October 19th, while the dollar breached a new low of 1.44 euros ten days later. While consumer spending increased from July through September from 1.4% to 3%, durable goods orders fell 1.7 percent in September, accelerating a 5.3 percent decline in August. Oil prices have soared 84% since January--hitting an inflationary high of $93/bbl on October 29th.

On the truly grim side, U.S. home prices fell nationwide in August for the eighth consecutive month, according to the S & P/Case-Shiller index released on 10/30/07. The index of 10 large U.S. Cities showed a price drop of 5%, the largest since 1991. The Department of Commerce reported 1.19 million housing starts in September—the worst level in 14 years. Sales of existing homes plunged 8 percent in September to the slowest annual pace in nearly a decade. Inventories of unsold existing homes rose last month to their highest level in almost 20 years. Sales of new homes rose slightly in September, but only because the August figure had been revised downward and remained near the lowest level in a decade. Global Insight, a research firm whose estimates of the housing market are the most conservative by far, predicts that the national average for housing prices will drop 5 percent over the next year and 10 percent before mid-2009. In the month past, 17 more lenders reported closing down their wholesale operations, (raising the YTD total to 178), the most notable being Bank of America.

TRICK OR TREAT?

It all depends on who you are—an investor or a borrower. Just in time for Halloween and as expected, the Federal Open Market Committee (FOMC) cut the Fed Funds rate to 4.5% which translates to a 7.5% Prime Rate. For the past 3 years the Fed's primary concern has been about inflation—now it's all about the economy and staving off a recession. While the cut may be viewed as a "treat" for the stock market, it's a "trick" for holders of dollar denominated assets and borrowers. As if to prove my point, the dollar set a new all-time low of 1.45 dollars to the Euro. The dollar has lost nearly 10% of its purchasing power vis-a-vis the Euro, this year alone. While the cut will lower the rates on home equity loans (2nds that are linked to the Prime Rate) it will ironically worsen for rates on 1sts. A Fed rate cut typically helps the economy and the stock market as was evidenced last month when the Fed's .50% cut sent stocks soaring. But, because bonds are averse to inflation, their prices dropped and rates worsened. The reason investors dumped bonds was to obtain higher rates of return elsewhere, for example, U.S. stocks or higher yielding foreign bonds. Remember, the relationship between the price of Bonds and their yields (interest rates) is inverse, meaning that as the price of bonds drop their yield or interest rate goes up. As expected, the Dow closed up 137.5 points for the day and the 10 year bond dropped 23/32nds and rates worsened by .125%.

Every housing downturn since World War II has resulted in a U.S. recession. Given that this housing downturn is more intense than most, there is no reason to suppose that a U.S. recession in 2008 is not at hand. The housing sector constitutes a major component of GDP and economic change. With more bad news for housing expected in the coming 12 months, it may take another quarter or two before consumer spending slows and unemployment rises, but if it does, despite what Greenspan and a few labor administration officials have said, it will be evident that the **"R"** word is on its way to becoming a *fait accompli.*

THIS ISSUE'S TOPIC: PRE-QUALS, PRE-APPROVALS AND APPROVALS REVISITED

Borrowers often confuse and misuse the terms Pre-Qualified, Pre-Approved, and Approved. Even realtors use the terms interchangeably and incorrectly. While they sound like basically the same thing, there are some substantive differences among the three and it behooves borrowers to understand the subtle, yet crucial distinctions among them. Because, incorrectly applied it could cost buyers their prospective dream home.

The first distinction that buyers are likely to come in contact with is the difference between **pre-qualification** and **pre-approval**. A great many real estate agents do not want to waste their time with borrowers who are not pre-qualified; they do not want to show them houses that the buyers can't afford. Many agents insist on their clients being pre-approved before making an offer because in a multiple offer situation, 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. Here's why.

PRE-QUALIFICATION

Pre-qualification simply means that the borrower has spoken with a loan officer and that his (or her) credit has been pulled and a cursory discussion of the borrower's credit, assets, employment and residential history has taken place. It is used when making an offer on a property because it indicates to the seller that the holder is qualified to purchase the house in question. In many cases, a loan program has not even been decided upon at this stage. But, for a prospective buyer, it gives one an approximate price range in which to shop. Because loan officers do not approve loans, a pre-qualification letter is not a commitment to lend. It is the weakest of consents because the application has not gone before an underwriter.

FACTOID

Bank of America estimates that 40% of home buyers who got a mortgage in 2006 probably wouldn't qualify for a home loan now. Lenders are introducing tighter underwriting guidelines. Buyers now need at least a 5% down payment. A year ago, mortgages for 100% of the value were common.

PRE-APPROVED

Pre-approved is a considerable step up from pre-qualification. It means that the borrower's loan information has been reviewed either by a lender's underwriter (a person) **or by a proprietary software underwriting program** like Fannie Mae's DU (for Desktop Underwriting) or Freddie Mac's LP (for Loan Prospector) **which lenders deem equally valid**. In either case **the underwriter or the underwriting software has all the necessary information regarding employment history, income, assets, debts, and credit information as provided by the borrower(s) to grant a conditional approval.**

For buyers, the pre-approval letter identifies the loan program, provides a tangible mortgage amount with a down-payment percentage, mortgage insurance, property taxes, and interest rates factored into the total. This often results in an accurate payment and total costs to close. The loan is still subject to a satisfactory appraisal, title report, and any additional conditions stipulated by the underwriter in accordance with the lender's guidelines. Thus, because it's a more in-depth process **a pre-approval is stronger than a pre-qualification and the seller is apt to favor the buyer who has been pre-approved because there is a much better chance of the escrow closing with the former.** Finally, getting a **pre-approval allows buyers to close quickly when they find a property.**

APPROVED

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 loan is finally APPROVED. Essentially, this is when the lender says, "Everything looks fine—let's go to docs (signing). This is, more or less, when it's time to celebrate—a term with which everyone's familiar.

BUY, BUY, BUY

Occasionally, people ask my opinion of whether or not this is a good time to buy a home. If one's aim is "to buy low and sell high," then, this is a great time to buy a home. One caveat: right now, one should expect a holding period of 5-years.

The reasons are ones you've probably heard before:

1) IT'S A BUYER'S MARKET.

Prices have been reduced and sellers are more flexible and willing to grant seller concessions like contributions of 3-6% of the sales price toward the buyer's closing costs. Don't be shy in asking about incentives. You'd be surprised at some of the counters proposed and the offers accepted.

2) THERE'S PLENTY OF INVENTORY.

Homes are staying on the market much longer, which has resulted in a huge rise in inventory. Right now, it stands at about 8.8 months worth in San Diego County. So, buyers have (pardon the pun) lots to choose from. Still, if a buyer finds something that looks good they should be careful not to pass it up because good homes that are well priced values will sell quickly in most any market.

3) INTEREST RATES ARE STILL NEAR HISTORIC LOWS, which translates to lower monthly payments. (I wrote this prior to 8/1/07 but for conforming loan amounts (under $417,000) it remains valid).

4) TAX SHELTER.

One of the primary benefits of owning a home is the tax shelter that a home mortgage affords the average buyer. The interest on a home mortgage is tax deductible and during the first ten years approximately 85% of every dollar paid in mortgage payments is tax deductible.

5) THERE ARE A MULTITUDE OF LOAN PROGRAMS.

(Again, this was written prior to 8/1/07 but it is still applicable for conforming loan amounts). Even though lending guidelines have tightened in recent months there are still more programs for borrowers than ever before. In addition to all the usual loan programs I have programs for the self-employed, for low-income borrowers, for credit challenged borrowers, for buyers who don't have a down payment, for buyers who don't have a job, and for those with special jobs like nurses, educators, fire-fighters, policemen, pharmacists, cafeteria workers, etc.

6) PRICE APPRECIATION.

There are very few things that one can buy new, use and sell for 50 or 100% more than when they purchased it. Real estate is one of them. As Will Rogers once observed, "put your money in land, because they aren't making any more of it." Purchases made now should profit handsomely as this market recovers from the dip we've seen in prices the past two years.

MORTY'S MAILBAG

Q. I'd appreciate it if you could explain why Verifications of Deposit are required and how they work?

A. First off, VODs are not always required; they are asked for only in a couple of instances. One, if an applicant cannot provide bank statements for the last two months or two, if they wish to receive credit for a recent deposit and there is not enough time to wait for the normal statement cycle, he or she can request a printout from the bank teller. Otherwise, the loan processor will have to send a verification letter to the bank to verify the current and average balance for the borrower's accounts. As the processor reviews these bank statements, he or she will confirm the account ownership but will focus on two elements:

1. Current balance.This amount is normally what the applicant can use for qualification.
2. Average balance.The account's average over the past two to three months will tell the processor whether the borrower has made any large deposits during the past months.Any unusual, large deposits must be explained and documented, because lenders are primarily worried those deposits may have come from unacceptable sources.

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

MORTGAGE MIRTH

A golfer, playing a round by himself, is about to tee off, when a salesman runs up to him and yells, "Wait! Before you tee off, I have something really amazing to show you!"

The golfer, annoyed, says, "What is it?"

"It's a special golf ball," says the salesman. "You can never lose it!"

"Whatya mean," scoffs the golfer, "you can never lose it? What if you hit it into the water?"

"No problem," says the salesman. "It floats, and it detects where the shore is, and spins towards it."

"Well, what if you hit it into the woods?"

"Easy," says the salesman. "It emits a beeping sound, and you can find it with your eyes closed."

"Okay," says the golfer, impressed. "But what if your round goes late and it gets dark?"

"No problem, sir, this golf ball glows in the dark! I'm telling you, you can never lose this golf ball!"

The golfer buys it at once. "Just one question," he says to the salesman. "Where did you get it?"

"I found it."

If you'd care to share one that you've heard, please email it to me at....

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NEXT ISSUE'S TOPIC: WHICH HOME IMPROVEMENTS PAY BACK