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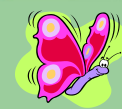

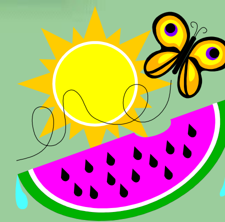

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THE MONTH IN REVIEW

5/1-5/4 **The Dow hit a 4-year high, Tuesday,** as investors welcomed a rise in U.S. manufacturing activity and a mixed batch of corporate earnings. **Thirteen of the 17 nations in the European Common Market have unemployment numbers above 10% and twelve European economies are now officially in recession. Initial jobless claims for the week ended April 28 totaled 365,000, according to the Labor Department**, which was less than expected. **Friday, the Dow fell 158-points on a weak jobs report.**

5/7-5/11 **Stocks tumbled below 13,000, Tuesday, as Greece's uncertain political situation kept investors on edge. European uncertainty has added to the downward momentum in U.S. crude oil prices which are currently at $96.14/bbl. The Labor Department reported Thursday that 367,000 filed new jobless claims in the week ending May 5**, down from 368,000 the week before. **The Reuters/University of Michigan consumer sentiment index for May rose to 77.8 from 76.4 in April.** It was the highest level since January 2008. **The price on the benchmark 10-year U.S. Treasury fell, leaving the yield near the 1.84% level.**

5/14-5/18 **All three U.S. stock indexes closed down roughly 1% Monday.** Investors sold out of stocks on worries over the political and economic stability of the eurozone and the safety of the U.S. banking sector. **Stocks closed at three-month lows Tuesday**, sliding during the final hour of trade, as investors faced worrisome signs out of Greece. **Housing starts jumped to an annual rate of 717,000 in April,** from the revised level of 699,000 in March. **Meanwhile, building permits fell to an annual rate of 715,000 in April,** from the revised figure of 769,000 in March. **Investors dumped stocks with the Dow falling 156 points and fled to the safety of U.S.**

Treasuries on Thursday as worries about Greece's future in the Eurozone continued to escalate.

5/21-5/25 April sales of NEW homes grew 3.3% month over month to an annualized rate of 343,000, according to the U.S. Department of Commerce. **The number of people filing for first-time unemployment benefits dipped 2,000 to 370,000** in the latest week, the Labor Department said Thursday.

5/28-5/31 The Conference Board's Consumer Confidence Index for May fell to 64.9, after falling to 68.7 last month. Economists had expected the index to ease to 69.4 in May. **The Case-Shiller 20-city Index, which tracks home prices, fell 2.6% in March, after falling 3.5% in the prior month.** Economists had expected the index to have slipped 2.8%. **Stocks fell sharply Wednesday,** here and abroad, as worries about Europe's debt crisis, again shook confidence. **The euro slipped to a fresh two-year low against the dollar**. **Investors flooded into U.S. Treasuries, raising prices and pushing the yield on the benchmark 10-year note down to a record low of 1.63% Payroll services firm, ADP, showed a gain of 133,000 jobs, less than the 157,000 forecast by economists. Those filing for first-time unemployment benefits rose 10,000 to 383,000 in the latest week.**

MORTGAGE INSURANCE

WHAT IT IS

Mortgage Insurance (MI or PMI for private mortgage insurance) is an indemnification policy that a buyer

purchases that protects the lender from buyer default. This insurance is required only when a property's Loan To Value (LTV) is in the range of 80.1-100% (foreclosure risk). In short, it is insurance that the lender requires due to the risk of a loan going into default. The borrower pays the premium for the insurance, but the lender receives the benefits. Therefore, it is a fee that the borrowers are required to pay until they can demonstrate that they are not a default risk.

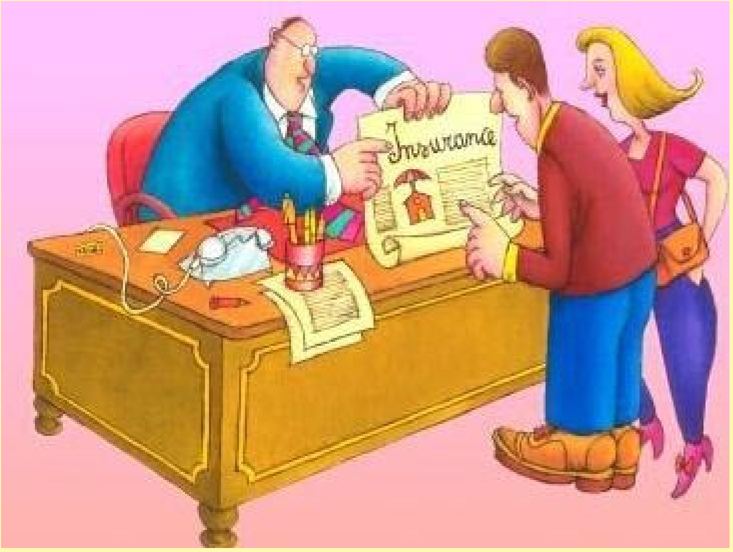
Not all mortgage insurance is issued by private companies. Mortgage insurance began with government programs backed by the FHA and the VA. Government mortgage insurance is still available today, but the private plans have some advantages over the government programs:

- Private insurance is available on higher loan amounts.
- Private MI is available on more types of mortgage loan types.
- In some cases, the cost of government mortgage insurance can be higher than for private plans.
- MI payments are competitive with or better than combo financing
- MI is cancellable—Seconds must be paid in full
- MI underwriting guidelines are more flexible
- One loan is simpler than two
- MI isn't rate sensitive—costs don't rise as they do with HELOCs
- MI makes it simpler and easier to refinance

WHY SHOULD I PAY FOR THE LENDER'S POLICY?

Studies have shown that homeowners with less than 20% invested in a home are more likely to default. That makes low-down-payment mortgages riskier for lenders and investors. Mortgage insurance helps cover this additional risk. Because they're insured against this loss, lenders are willing to accept lower down payments (a standard down payment used to be 20% of the purchase price). In a corollary fashion, borrowers benefit in that it permits the buyer to buy a more expensive home with a smaller down payment than might otherwise have been the case.

With 2nd mortgages and HELOCs now unavailable above 80% loan to value, mortgage insurance is the only game in town, if a borrower is coming in with a down payment of less than 20%. Another disadvantage of adjustable rate 2nds or Home Equity Lines of Credit (HELOCs) is the lack of interest rate and payment caps. Simply put, M.I. is immune to rising interest rates and unlike HELOCs, it is cancelable whereas 2nds must be paid back in full and many of them like a 30/15 (a 2nd with payment amortized over 30 years but due in 15) have balloon payments to contend with, as well.



INELIGIBLE LOAN TYPES

Investment properties are not eligible for MI, but primary residences and 2nd homes are. Lender paid MI on loans with and LTV of 97% and/or 3/1 ARMs.

ADVANTAGES

- Flexible premium payment options are available—your lender can offer several options for MI payment
- Premium payments are temporary.

HOW DOES MI WORK?

Lenders usually take care of arranging for private mortgage insurance after discussing with you the kind of mortgage insurance plan you can afford and that best fits your needs. MI products include options for lender or borrower-paid premiums, and can be financed as part of the mortgage, paid monthly or as a one-time upfront single premium. Various options afford a variety customized MI solution to be tailored to the borrower's needs and income stream.

Usually the mortgage insurance premium is added to your monthly principal and interest payment (along with your property taxes and hazard insurance) and in turn, the lender pays the mortgage insurance premium to the mortgage insurer. You can also opt for a single financed premium plan in which your mortgage insurance is factored into the loan balance.

WON'T M.I. JUST INCREASE MY MORTGAGE PAYMENT?

Yes, but mortgage payments are determined mainly by the interest rate and the loan amount. Mortgage insurance represents only a very small percentage of a borrower's mortgage payment.

M.I.: WHO PAYS IT AND HOW IT'S PAID

There are two basic approaches regarding who pays it: the borrower or the lender.

1. **<u>Borrower Paid MI</u>**—with borrower-paid mortgage insurance (BPMI), the borrower pays the MI premium, either monthly or as a single upfront premium. Single premiums may be financed into the loan. A choice of monthly premiums or a single premium can be paid at closing or financed into the loan.

2. **Lender Paid MI**—the lender pays for the mortgage insurance and passes the cost of it on to the borrower in the form of a higher interest rate on the loan. While this approach may result in reduced closing costs and a lower monthly payment for some homebuyers, lender paid mortgage insurance is provided for the life of the loan and is not cancelable.

A borrower has several payment options: a monthly premium, an annual premium, a single premium, and even a split premium. As payment options go, there's pretty much something for everyone. Here's a sampling of the various plans and their corresponding benefits:

- **Monthly premium—the mortgage insurance premium is incorporated into your overall loan payment. With this plan you can minimize the closing costs. If MI coverage is cancelled, the unearned premium is refunded.**

- **Single Financed Premium Mortgage Insurance**—Borrowers can pay a one-time lump sum payment. This attractive option offers a low monthly payment and reduces the amount necessary at closing. Single Financed Premium MI is best for borrowers who want to minimize their monthly payment. The premium due at closing can paid by the borrowers or by a third party such as a builder or seller. It can also be financed into the loan amount. It is the lowest MI cost option for most consumers. Under the Homeowners Protection Act of 1998 (HPA), mortgage insurance is cancellable and the unearned premium is refundable.

- **Annual plan—**you pay an initial premium at closing and a renewal premium each year that follows. Borrowers can pay the first year premium **at closing** or they can pay 1/12th of the premium monthly as part of their mortgage payment. The initial premium can also be financed into the loan amount.

- **Hybrid MI or Split premium** By splitting the MI cost into an upfront premium and a smaller monthly payment, it dramatically reduces a borrower's monthly MI payment, which can help them qualify for a larger loan. The upfront premium gives the borrower a credit at closing, which is used to buy down the MI premium. Upfront single premiums can be .50%, .75%, 1.00% or 1.25% of the loan amount, with the balance of the MI premium paid monthly. There are two initial premium options: full payment by the borrower at loan closing, or the financing of the initial payment into the loan. The borrower may receive a refund of the financed portion of premium if MI is cancelled in the first two years. This program requires a 680 FICO score.

HOW SMALL CAN YOUR DOWN PAYMENT BE?

Generally speaking, you're going to need 3-5% as a minimum.

COSTS

It varies. You'll need less mortgage insurance with 15% down than you will with 5% down. It also depends on the type of mortgage and other factors. In general, the higher the LTV, the higher the factor and consequently the higher the cost will be. Because of the variety of programs, variables and lenders it's advisable to contact a mortgage lender like myself for actual pricing.

CANCELLING MI

Homeowners with MI may request to cancel it when their equity reaches 80% and is automatically cancelled when the original LTV is paid down to 78%.

M.I. DEDUCTION REPEALED

Congress repealed the law that it enacted in 2007 that allowed Private Mortgage Insurance (PMI) premiums to be tax-deductible for borrowers who make less than $100,000 per year. Thus, mortgage insurance premiums paid or accrued after December 31, 2011, are no longer eligible to be treated as interest paid by the payer/borrower.

APRIL JOBS REPORT: HIRING SLOWS, UNEMPLOYMENT FALLS

Hiring slowed in April and workers dropped out of the labor force in droves -- not a good sign for the job market going forward. The economy added just 115,000 jobs in the month, the Labor Department reported Friday, down from March when employers created 154,000 jobs.

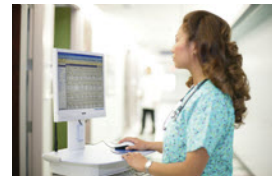
Meanwhile, the unemployment rate fell to 8.1% as 342,000 workers dropped out of the labor force. At 63.6%, the portion of the working-age population participating in the job market is now at its lowest level since 1981. That's problematic mainly because it weighs on economic growth.

The labor market has been on a roller coaster this year, with job growth starting off strong in the first couple of months of 2012. Then a disappointing slowdown in March led many to wonder whether the recovery was taking a turn for the worse. April's weak growth compounded those fears. But revisions from previous months also showed the economy gained 53,000 more jobs in February and March than originally thought.

*NUMBERS ARE SEASONALLY ADJUSTED; SOURCE: BUREAU OF LABOR STATISTICS

Some economists believe the slowdown now is mainly due to the seasonal adjustments the government uses in calculating its figures. Warm weather earlier in the year may have given the job market an artificial boost in January and February, which is now tapering off.

Retailers added 29,000 jobs in April, while restaurants and bars added 20,000 workers. Temporary agencies hired 21,000 and manufacturers added 16,000 jobs. Meanwhile, the government continued to slash workers.



Recruiters say they're still seeing plenty of demand for high-skill workers in technology, health care and professional services like accounting, but not enough of America's unemployed have the right qualifications.

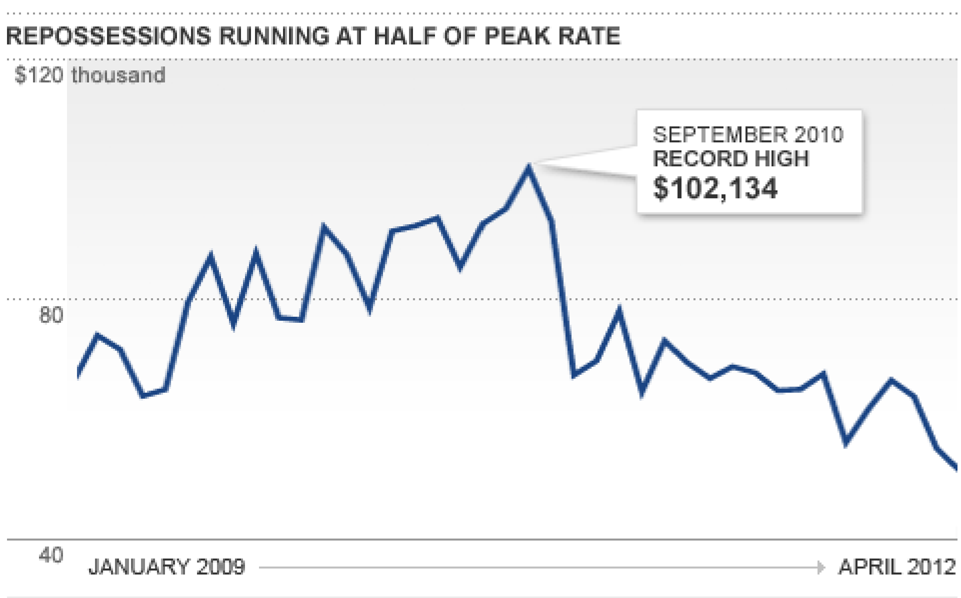
Overall, the job market has a long way to go to climb out of the deep hole left by the financial crisis. Of the 8.8 million jobs lost, only about 3.7 million have been added back. Roughly 12.5 million Americans remain unemployed, and 41.3**%** of them have been so for six months or more.

FORECLOSURES FALL TO LOWEST LEVELS SINCE 2007

Bank repossessions declined significantly -- there were 51,415 repossessions last month, down 26% from a year ago, and about half the 102,000 monthly repossessions at the peak in September 2010. Much of the improvement, however, can be attributed to declines in only a handful of states, especially those that had been hardest hit by the housing crisis and which did not require judicial review of foreclosures.

In Arizona and Nevada, for example, bank repossessions were down roughly 70%. In California, they were more than 50% lower. States that do require judicial review, however, are only now catching up to foreclosure filings that were put on hold in the wake of the robo-signing scandal in 2010. The 26 states that require judicial review -- including Florida, New Jersey and Illinois -- continue to see increases in foreclosure activity.

Another factor RealtyTrac cited for the decline in foreclosures was a big increase in short sales, deals in which borrowers sell homes for less than what they owe on their mortgages. More distressed loans are being diverted into short sales rather than becoming completed foreclosures.



Foreclosure filings in April fell for the third straight month to the lowest level since July 2007. Total foreclosure activity for April, including default notices, scheduled auctions and bank repossessions, was down 5% from March, according to RealtyTrac.

Banks take a hit on short sales because they forgive the difference between proceeds from the sale and the mortgage balance. But short sales can cost banks less than foreclosures. In fact, several large mortgage lenders are paying out incentives to borrowers who complete a short sale.

Bank of America said it would give some struggling homeowners payments of up to $30,000 if they sell their homes in short sales. Chase and Wells Fargo also have similar programs in place.

HOME OWNERSHIP FALLS TO LOWEST LEVEL IN 15 YEARS

Homeownership in the U.S. fell to its lowest level in 15 years during the first quarter as more delinquent borrowers lost their homes to foreclosure, forcing many to rent. The percentage of Americans who own their homes dropped a full percentage point over the past 12 months to 65.4% during the first three months of 2012, according to the latest Census Bureau data. That's the lowest rate since 1997 and down from the peak of 69.2% reached in 2004.

As foreclosures grew over the last six years, many homeowners became renters. The rental vacancy rate dropped to 8.8% during the first quarter, down from 9.7% a year earlier and from 9.4% in the last quarter of 2011, according to Census. The growing demand has put pressure on the rental markets. In many depressed housing markets, investors have been buying up distressed properties -- foreclosures and short sales -- fixing them up and renting them out.

Meanwhile, median home prices continue to fall. During the first quarter 2012, the median asking sales price for vacant units was $133,700. That's down from $143,700 during the first quarter of 2011, according to Census. Homeownership has fallen for all age groups, races and regions since the housing boom, Census reported. It is lowest in the West, where it has dropped one percentage point over the past 12 months to 59.9%. The Midwest has the highest homeownership rate at 69.5%, down 0.9 point year-over-year; the South is second at 67.5% (down 0.9 point) and the Northeast is third at 62.5 (down 1.4 point).

HOME SALES SURGE IN APRIL

In April, home sales surged 10% year-over-year, yet another indication of a housing market recovery. The housing market surged in April, with home affordability at record levels. Sales hit 4.62 million homes during the month on an annualized basis, a rise of 3.4% compared with a month earlier and up 10% from April 2011, according to the National Association of Realtors (NAR).

The housing market's improvement was widespread, as all four regions in the nation recorded gains, a good indication that there is a sustainable recovery afoot. It appears that the fundamentals for a recovery have been in place for a while, only confidence was lacking.

A decline in the proportion of distressed property sales—homes either in default or already repossessed by lenders—helped boost home prices. These properties normally sell at big discounts to conventional sales and drag down the overall median price. In April, distressed properties accounted for 28% of sales, down from 37% 12 months earlier.

Housing market analysts think that the market is turning but that it will be a slow process. The market won't pick up much steam this year because the key issue is credit: It's still tight both for mortgage borrowers and for home builders. There's no sign that credit will loosen up anytime soon, but the fact that interest rates are at record lows does make financing easier for buyers.

It's no longer just investors who are jumping into the market. A return to normal home buying for occupancy is helping home sales across all price points. As prices stabilize, homeowners may be encouraged to put their homes on the market. Inventory rose 9.5% to 2.54 million homes in April, which is common in the spring, as sellers try to capitalize on the selling season. Overall, the supply of homes for sale has dropped more than 20% from 12 months ago and is well down from the record high of 4.04 million in July 2007.

RATE SUMMARY

Overall changes in mortgage rates were slight in the past 30 days

CONFORMINGS–an 1/8th BETTER for most programs

JUMBOS – New Low for the Jumbo 30 yr. fixed @ 3.875%

GOVERNMENTS – FHA/VA High Balance better by 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 "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

SPECIAL(S) OF THE MONTH

- **Conforming 5/1 ARM @ 2.375%**
- **Conforming 5/1 ARM Interest Only @ 2.500%**
- **Conforming 30 yr. fixed @ 3.250%**
- **Jumbo 30 yr. fixed @ 3.875%**
- **Jumbo 5/1 ARM @ 2.625%**
- **FHA/VA Conforming 15 yr. fixed @ 2.75%**
- **FHA/VA High Balance 30 yr. fixed @ 3.500%**

MORTGAGE MIRTH

Everyone has a photographic memory; some just don't have film.

NEXT ISSUES TOPIC:

APPRAISALS, AN UPDATE.