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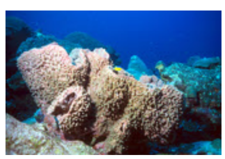
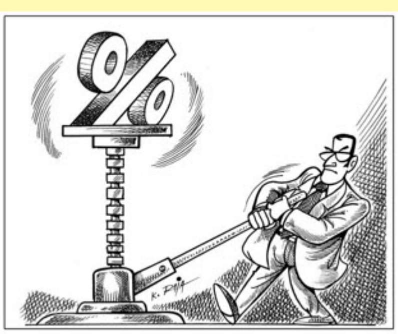
IN THIS MONTH'S ISSUE



INTEREST RATE DETERMINANTS (2.0)

The most frequently asked questioned by borrowers is "what's your rate?" They often expect you to quote a rate without their providing you much in the way of pertinent information other than their name. The easy, open ended answer is "I have programs with rates that range from 2.125% to 12%. Let's see which one applies to you and what you're trying to accomplish."



What borrowers often fail to realize is the complexity of coming up with a VALID quote because not only do the rates change daily, with occasional intraday rate changes, but that each lender may have 20-50 different loan programs. On top of this, Cypress Realty & Mortgage, my parent company is approved with over 20 different lenders. So, if you do the math, there are literally dozens of different programs. Each program has 10-15 different parameters that influence the pricing.

What most brokers do (if pressed by a borrower for a number on the spot) is quote from the one or two lenders they use most often and depending on what they think the borrower wants to hear they quote the program with the lowest rate or they opt for the standard 30 yr. fixed. Some don't bother qualifying the borrower by running their credit—they simply quote them the "A Paper" rates and later inform them that they are deficient in some regard. Obviously, this can present problems down the road.

RATE vs. PRICE

There are two elements that determine a rate quote: one is the INTEREST RATE, the other is PRICE. The

INTEREST RATE is the prevailing percentage of a sum of money charged for its use. The PRICE is the amount that one has to pay to obtain a particular rate. Example: The interest rate for a loan of $500,000 is 6%, but the price (or hit to the price) to obtain this rate may be 0.5% or $2500. Par pricing is where there is no money paid or rebated to obtain a particular rate. New loan officers frequently use the two interchangeably with disastrous results. They make adjustments to rate instead of to the price and vice versa.

Aside from lenders' guidelines and Debt To Income (DTI) ratios. ALL OF THE FOLLOWING **BOLDED** HEADINGS AFFECT THE INTEREST RATE:

LOAN AMOUNT

Lenders' base interest rates are determined by the size of the loan. There are three categories: Conforming (under $417,000), Agency Jumbos (417,000 - 546,250), and Non Conforming (everything above 546,250). The smaller loan amounts, typically, have base interest rates that are lower by 0.25% to 0.375%.

LTV

With a lower LTV (Loan To Value) classification, there is a reduced risk of default for the lender and consequently, the pricing to be had is better. The range varies with the LTV. The best pricing will usually be at LTVs of 60% or less.

FICO SCORES (MID)

Your mid-FICO score is another prime determinant of price. Notice that I said mid-FICO, not the high score, not the low, but the middle score in a tri-merged credit report. If there is a co-borrower or spouse on the loan, the lender will almost always go with the lower mid-score of the two borrowers on the theory that "a chain is only as strong as its weakest link" and so too, with the likelihood of a default on a loan. There are a few lenders, however, that will go with the higher wage-earner or will go with a blended FICO score (the average of the borrower's and co-borrower's mid-FICO scores), but this is not the norm.

OCCUPANCY

Financing for one's Primary Residence will be more attractively priced than for a 2nd Home or an Investment Property (a.k.a. Non-Owner Occupied). The reason for this is that an owner is far less apt to default on the payments on their principal abode than a 2nd home or an investment property. Fannie Mae and Freddie Mac have correlated the risk on investment property to be higher and as result there is 1.75% hit in price, not in rate, for a property being non-owner occupied. As a consequence, the rate usually is adjusted upward to reflect this pricing hit. A 2nd home would likely necessitate an adjustment of only 0.125% in price.

PROPERTY TYPE

Differing types of property affect the price of a loan. The reason being is in the event of a default certain kinds of property offer better collateral or are easier for a lender to market than others. An SFR (single family residence) or a PUD (planned unit development) is better collateral than say a CONDO because the land beneath the dwelling is owned outright as opposed to a condo, whereby only the unit is owned outright and the land owned in partnership with the other condominium owners. Lenders are also reticent in lending on condo projects where fewer than 50 or 60% of the units have been sold.

LOAN TYPE

Depending on what a borrower is trying to accomplish the type of loan will have a direct effect on the rate as different loan types have different rates. For example, if a low payment is desired, the ideal vehicle may be an interest only type of loan; if the borrower is looking to shorten one's pay-off time, he may opt for a 15-year term; and if he doesn't have much in the way of a down payment he would be forced to go with an FHA (or VA if eligible). All of these programs have different prices and interest rates associated with them, respectively.

DOC TYPE

The basic rule of thumb is that the more documentation you're willing to provide the less risk that is attached to a loan for a lender. These days, all loans are FULL DOC.

TERM

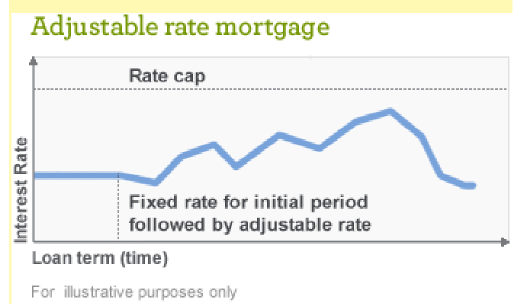
A rule of thumb that may be applied here is the shorter the term, the cheaper the rate. The options normally afforded a borrower are: 15, 30 and even 40-year terms. Some lenders also offer 10 year terms based on 15 year pricing (with a .25% adjustment) and 20 year terms based on 30 year pricing (again, with a 0.25% adjustment downward). With 40+ year terms one can expect to see price bumps ranging from 0.25% to 0.625%.

INDEXES (ARMS ONLY)

There are several different indexes. Among the most well known and frequently used are the CMT and the LIBOR. The interest rate spread is often as much as a full point. For example, right now (August, 2012) the 1-yr.CMT is at .19%, the 1-yr. LIBOR stands as 1.0661%, the COFI is at 1.116%, the MTA, at 0.1475% and the 1-month LIBOR, 0.2466%. But this is only part of the story, because the indexes with the lowest interest rates usually have higher off-setting margins which negate the difference in the indexes. Incidentally, difference in the indexes is a factor of their volatility. Some are more stable than others. When rates are rising, those with the greatest volatility will spike the most quickly, but when rates are falling, they will, likewise, be the quickest to drop. For an in-depth discussion of the various indexes, see the October, 2011 newsletter (vol. 8, issue 10 on the website).

LENGTH OF FIXED RATE (ARMS ONLY)

Normally, the shorter the period that the rate remains fixed, the cheaper it is.



Thus a 6 month Libor (where the rate is fixed for 6 months and adjusts based on the LIBOR Index) is apt to command a lower rate than say a 3/1 Treasury (where the rate is fixed for 3 years and adjusts annually based on the CMT (Constant Maturity Treasury Index). The fixed rate periods range as follows: 1 month, 6 month, 1 yr., 3 yrs., 5 yrs., 7 yrs., 10 yrs., 15 yrs., and 30 years. Thus, a loan that's fixed for 30 years would typically command the highest premium. With a normally ordered yield curve one might expect to see an eighth of point spread between the various fixed rate periods. I say "normally", because in the past few years we've had several instances when the yield curve has been inverted, during which time, short term (6 mos. – 3yrs) money at fixed rates has cost more than intermediate term money (5-7 yrs.) and numerous instances where long term (10-30 yrs.) less dear, than 3-5 yr. (short-intermediate term) money. Right now, the pricing on 3/1 ARMs is costlier than that of 5/1 ARMs

LOCK PERIODS

The range of lock times is between 15-75 days. Lock periods are usually in 15 day increments; the longer the lock, the higher the price. At present, the spread is about 1/16 of a point per 15 day extension.

CASH OUT

If you're refinancing a property and need cash out (beyond $2,000) you can expect to see a .25% adjustment upward in the price.

PREPAYS

Prepayment penalties used to be prevalent. Few loans, these days, have them. They existed in increments of 1, 2, 3, & 5 years.

POINTS, OR NO POINTS?

Do you want the lowest rate or the lowest price? If you want the lowest rate you'll opt for the wholesale price, but this will necessitate an origination fee. If you desire the lowest price, you may be able to get a rate only a quarter percent higher that will pay the broker a rebate via your lender credit, thus saving you thousands of dollars in origination fee. If you're holding time is less than 5 years, it will probably benefit you to go with rebate pricing as opposed to wholesale pricing.

IMPOUNDS

Nearly all lenders offer reductions to borrowers if they have their taxes and insurance impounded

because it diminishes the chance of a tax lien (which would affect the lender's collateral) or lapses in insurance coverage (which would affect the lender's security). The differential is ordinarily 0.25% in price. Impounds are typically mandatory, if the LTV is above 80%

BUYDOWNS

Interest rates can be bought down either permanently or temporarily. Buy downs are not cheap, however, as a "general rule of thumb," a discount point of 1% will lower your fixed interest rate loan 0.25% and your adjustable interest rate loan .375%. In other words, it would be necessary to pay 1% of the total loan amount in price to lower your rate a ¼ to 3/8 of a percent.

2nds

With LTVs (Loan To Value) above 80% one has 3 choices: one loan with Mortgage Insurance included, a fixed rate 2nd or a variable rate loan like a HELOC (Home Equity Line Of Credit). With an LTV in excess of 80% one can expect one's price on the 1st to increase anywhere from .25% to 1.5% depending on one's FICO and LTV.

IF SOMEONE QUOTES YOU A RATE WITHOUT ASKING QUESTIONS WITH REGARD TO THESE FACTORS, I WOULD STRONGLY QUESTION THEIR COMPETENCE AND CREDIBILITY.

JULY JOBS REPORT: HIRING PICKS UP, UNEMPLOYMENT RISES

Businesses stepped up their hiring in July, but the unemployment rate ticked higher anyway. Employers said they added 163,000 jobs in the month, according to a Labor Department report released Friday, much better than the 95,000 jobs economists had forecast.

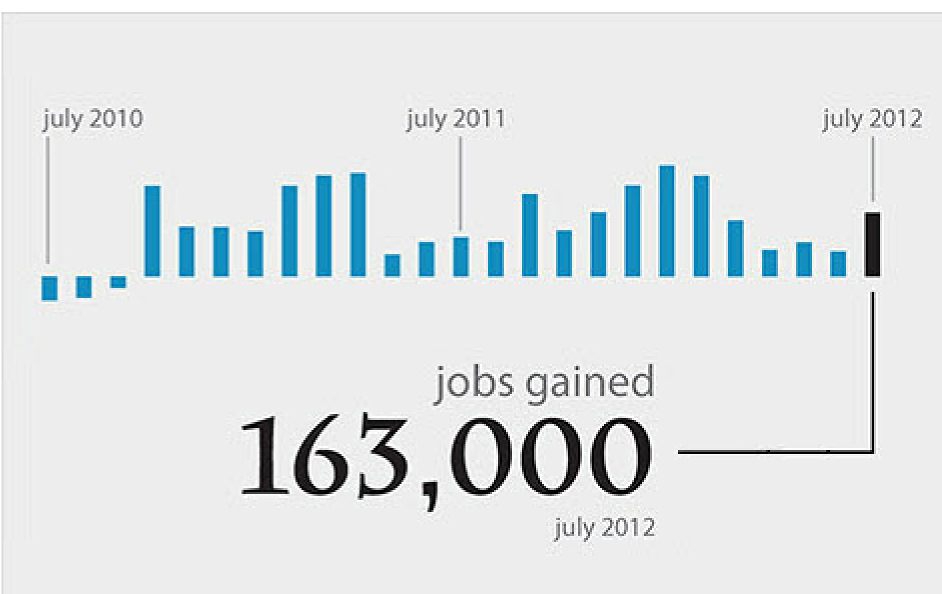
But at the same time, the unemployment rate unexpectedly rose to 8.3% as households claimed they lost 195,000 jobs. The government's monthly jobs report comes from two separate surveys: one that looks at employer payrolls, and the other which questions households. Those two reports went in opposite directions in July, confusing the overall reading on the job market.

The household survey showed 150,000 people dropped out of the job market. About 852,000 "discouraged workers" were not counted in the labor force, because they did not look for a job in the last four weeks.

The so called "underemployment rate" rose to 15%, its highest level since January. That includes people who are unemployed, as well as those who are working part-time because they can't find full-time jobs, and those that have looked for a job sometime in the last year.

According to the employer survey though, hiring picked up at a strong pace, but the quality of many of those jobs is questionable. Some of the biggest gains were at restaurants and bars, which hired 29,000 workers.

Auto factories also hired 12,800 workers, but that improvement could be misleading given seasonal adjustments that may have artificially inflated the number, economists said.



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

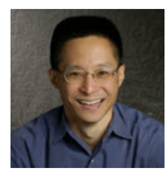
Temporary firms continued their hiring streak, creating 14,100 jobs in July. The demand for temp workers with finance, technology or health care experience in particular is so strong, the firm often has trouble finding enough qualified applicants. The education sector was a bright spot, adding 19,100 jobs, as was health care, which added 12,000 jobs.

Meanwhile, the public sector continues to be a drag on overall hiring. The government cut 9,000 jobs in the month, including cuts at the federal, state and local levels. 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 4 million have been added back. Three years after the recession officially ended, roughly 12.8 million Americans remain unemployed, and 40.7% of them have been so for six months or more.

(Over the years, I have found that the average person doesn't have even a rudimentary understanding of macroeconomics and taxation. What follows is an article that takes a metaphorical approach to explaining these two topics. It addresses the topic from the standpoint of a machine and a garden. It is mercifully short and worth reading).

THE MACHINE AND THE GARDEN

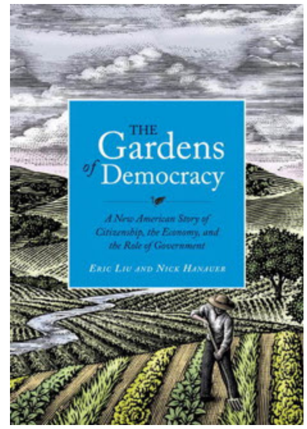
By ERIC LIU and NICK HANAUER



We are prisoners of the metaphors we use, even when they are wildly misleading. Consider how political candidates talk about the economy. Last month President Obama praised immigrants as "the greatest economic engine the world has ever known." Mitt Romney says that extending the Bush-era tax cuts will "fuel" a recovery. Others fear a "stall" in job growth.

Call it the "Machinebrain" picture of the world: markets are perfectly efficient, humans perfectly rational, incentives perfectly clear and outcomes perfectly appropriate. From this a series of other truths necessarily follows: regulation and taxes are inherently regrettable because they impede the machine's optimal workings. Government fiscal stimulus is wasteful. The rich by definition deserve to be so and the poor as well.

This self-enclosed metaphor is the gospel of market fundamentalists. But there is simply no evidence for it. Empirically, trickle-down economics has failed. Tax cuts for the rich have never once yielded more net revenue for the country. The 2008 crash and the Great Recession prove irrefutably how inefficient and irrational markets truly are.



What we require now is a new framework for thinking and talking about the economy, grounded in modern understandings of how things actually work. Economies, as social scientists now understand, aren't simple, linear and predictable, but complex, nonlinear and ecosystemic. An economy isn't a machine; it's a garden. It can be fruitful if well tended, but will be overrun by noxious weeds if not.

In this new framework, which we call Gardenbrain, markets are not perfectly efficient but can be effective if well managed. Where Machinebrain posits that it's every man for himself, Gardenbrain recognizes that we're all better off when we're all better off. Where Machinebrain treats radical inequality as purely the predictable result of unequally distributed talent and work ethic, Gardenbrain reveals it as equally the self-reinforcing and compounding result of unequally distributed opportunity.

Gardenbrain challenges many of today's most conventional policy ideas.

Consider regulation. Under the prevailing assumption, regulation is an unfortunate interruption of a frictionless process of wealth creation in a self-correcting market. But Gardenbrain allows us to see that an economy cannot self-correct any more than a garden can self-tend. And regulation — the creation of standards to raise the quality of economic life — is the work of seeding useful activity and weeding harmful activity.

Is it possible to garden clumsily and ineffectively? Of course. Wise regulation, however, is how human societies turn a useless jungle into a prosperous garden. This explains why wherever on earth one finds successful private companies, one also finds a well-regulated economy, and where regulation is absent we find widespread poverty.

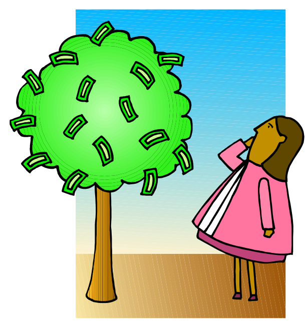
Or take taxes. Under the efficient-market hypothesis, taxes are an extraction of resources from the jobs machine, or more literally, taking money out of the economy. It is not just separate from economic activity, but hostile to it. This is why most Americans believe that lower taxes will automatically lead to more prosperity. Yet if there were a shred of truth to this, then given our historically low tax rates we would today be drowning in jobs and general prosperity.

Gardenbrain, in contrast, allows us to recognize taxes as basic nutrients that sustain the garden. A well-designed tax system — in which everyone contributes and benefits — ensures that nutrients are circulated widely to fertilize and foster growth. Reducing taxes on the very wealthiest on the idea that they are "job creators" is folly. Jobs are the consequence of an organic feedback loop between consumers and businesses, and it's the demand from a thriving middle class that truly creates jobs. The problem with today's severe concentration of wealth, then, isn't that it's unfair, though it might be; it's that it kills middle-class demand. Lasting growth doesn't trickle down; it emerges from the middle out.

Lastly, consider spending. The word spending means literally "to use up or extinguish value," and most Americans believe that's exactly what government does with their tax dollars. But government spending is not a single-step transaction that burns money as an engine burns fuel; its part of a continuous feedback loop that circulates money. Government no more spends our money than a garden spends water or a body spends blood. To spend tax dollars on education and health is to circulate nutrients through the garden.

True, not all spending is equally useful, and not every worthy idea for spending is affordable. But this perspective helps us understand why the most prosperous economies are those that tax and spend the most, while those that tax and spend the least are failures. More important, it clarifies why more austerity cannot revive an already weak private economy and why more spending can.

Seeing the economy this way does not make you anti-capitalist. In fact, nothing could be more pro-business and pro-growth than a Gardenbrain approach — because by focusing our attention on the long term over the short, on the power of markets to create wealth through evolutionary adaptations and on the health of the whole rather than a part, it gives us prosperity that is widely shared, sustained and self-reinforcing.



Humans, it is said, originated in a garden. Perhaps that is why we understand so intuitively what it takes to be great gardeners. Find the right ground and cast the seed. Fertilize water and weed. Know the difference between blight and bounty. Adapt to changing weather and seasons. Turn the soil. This is how a fruitful economy grows.

[I have decided to introduce a new feature this month that will, hopefully, be of interest to newsletter readers and real estate professionals. I will synopsize the previous month's moves in the capital markets and offer some financial insight].

MORTGAGE MARKET MOVES AND ANALYSIS

7/30-8/3 The Fed Minutes were the big story this week, raising expectations that the Fed will provide additional monetary stimulus soon. Mixed US economic data and minor news out of Europe had little impact. As a result, mortgage rates ended the week lower.

One relatively bright spot for the economy this year has been improving housing market data, which was encouraging, again, this week. July Existing Home Sales rose 2% from June, while July New Home Sales increased 4% from June. Both measures were significantly higher than one year ago. With mortgage rates still at very low levels and home affordability very high, any pickup in the labor market could lead to increased activity in the housing market.

8/6-8/10 While last week was packed with highly anticipated central bank announcements and significant economic data, there was no major economic news this week. As a result, both mortgage rates and the stock market ended the week with little change.

The pace of global economic growth is one primary influence for mortgage rates right now. Slower growth in the US, Europe, China, and most other regions has reduced inflationary pressures and supported low mortgage rates. Last week's stronger than expected Employment report and improving housing sector data, however, has raised hopes that the US will lead the rest of the world back to at least average levels of economic growth.

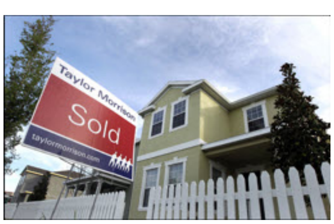
8/13-8/17 After reaching record lows near the end of July, mortgage rates have moved steadily higher this month, and the trend accelerated this week. While the US economic data was roughly neutral and there was little news out of Europe, mortgage rates continued to rise.

Prior to July 26, two primary factors were responsible for the decline to record low mortgage rates. First, the European debt troubles caused investors to shift to relatively safer assets, including US mortgage-backed securities (MBS), and mortgage rates are largely determined by MBS prices. Second, slower economic growth reduced inflationary pressures and supported low mortgage rates. While the troubles in Europe and sluggish growth rates are likely to remain for quite a while, what changed is that investor expectations on both fronts have improved this month.

On July 26, the President of the European Central Bank (ECB) declared that the ECB will do "whatever it takes" to preserve the European Union (EU), and Germany's Chancellor made similar comments this week. This raised expectations that the ECB will provide additional aid and help prevent the debt troubles from spreading. As a result, investors have partially reversed the flight to safety trade, lifting stocks and hurting mortgage rates.

The stronger than expected July Employment report released on August 3, this week's Retail Sales report, and improving housing sector data have raised the outlook for US economic growth. In typical fashion, as expectations have improved, mortgage rates have moved higher.

8/20-8/24 The Fed Minutes were the big story this week, raising expectations that the Fed will provide additional monetary stimulus soon. Mixed US economic data and minor news out of Europe had little impact. As a result, mortgage rates ended the week lower.



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8/27-8/31 While there was a full slate of economic data and Treasury auctions this week, investors were focused on a speech by Fed Chief Bernanke on Friday. While Bernanke did not commit to implementing any additional easing measures in his highly anticipated speech from Jackson Hole, his comments caused investors to raise their expectations for a third round of Fed asset purchases (called quantitative easing or QE3). Bernanke emphasized that a high jobless rate imposes large costs on the economy and left the door open for further easing. QE3 would likely involve Fed purchases of mortgage-backed securities (MBS), so mortgage rates improved after his speech.

The resulting increase in expectations for future Fed action was positive for mortgage rates, which ended the week a little lower. The possibility of additional monetary stimulus also caused stocks to rally on Friday.

The housing sector data released this week continued to show improvement. July Pending Home Sales increased 2% from June to the highest level since April 2010, which was shortly before the deadline for the homebuyer tax credit. Pending Home Sales are a leading indicator of future housing market activity. The June S&P/ Case-Shiller 20-city home price index increased 2.3% from May.

RATE SUMMARY

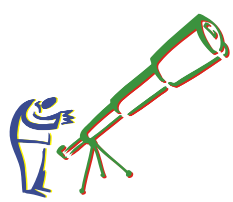
IN THE PAST MONTH…

*Conformings—NIL CHANGE
*Jumbos—NO CHANGE
*Governments—NIL CHANGE, the FHA & VA 15 yr. fixed improved by 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.

SPECIAL(S) OF THE MONTH

- Conforming 15 yr. fixed @ 2.625%
- Conforming 5/1 ARM @ 2.125% & 5/1 Interest Only ARM @ 2.375%
- Conf. High Balance 15 yr. fixed @ 2.75% & 30 yr. fixed HB @ 3.375%
- Jumbo 30 yr. fixed @ 3.75%
- FHA & VA 15 yr. fixed @ 2.625%
- HomePath 30 yr. fixed @ 3.250%
- Refi plus 30 yr. fixed @ 3.250%

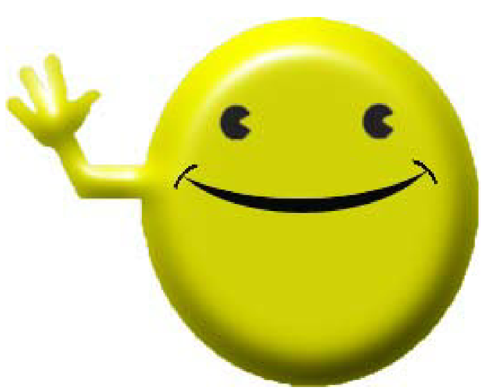


MORTY'S MAILBAG

Q. I have heard conflicting answers as to whether or not the debt forgiven from a short sale or loan modification is considered by the IRS to be taxable income. Can you shed some light on this?

A. Mortgage debt is exempt from taxation under current law, BUT only if the debt was used to buy or improve the house. The law does not exempt debt forgiven on many home equity loans. So, if you pulled $30,000 out of your home equity line of credit to purchase a new car, that $30,000 of forgiven debt would deemed taxable income.

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 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



MORTGAGE MIRTH

I wonder how much deeper the ocean would be without sponges.

NEXT ISSUES TOPIC:

A GLOSSARY OF FEES