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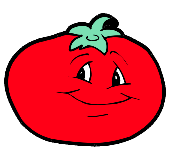


* MORTGAGE MIRTH

MORTGAGE MARKET MOVES AND ANALYSIS

Unemployment Rate Rises (week ending 2/1/2013)

In a week packed with big economic news, investors feared that the trend toward higher mortgage rates seen this month would continue. The risk that the Fed might signal a scaling back of its mortgage backed securities (MBS) purchases concerned investors. In the end, though, a neutral Fed statement and an unexpected increase in the Unemployment Rate allowed mortgage rates to reverse early increases and end the week with little change.

Wednesday's Fed statement was very similar to the statement issued after its December meeting. Concerning its MBS purchase program, the intention stayed the same, meaning that the Fed will continue buying MBS until the Unemployment Rate drops to 6.5%, as long as inflation doesn't increase too much before then. The Fed is the largest buyer of MBS and its demand helps keep rates low. The Fed statement reduced concerns that the MBS purchase program might be cut sooner than previously expected.

Against a consensus forecast of 180K, the economy added 157K jobs in January. The figures from the prior two months were revised significantly higher, raising the 3-month average above expectations. The Unemployment Rate climbed to 7.9%, though, above the consensus for a decline to 7.7%. The increase took place because the labor force grew more quickly than the number of jobs. Bottom line, job growth was a little stronger than expected overall. But with the Fed specifically targeting the Unemployment Rate to determine the duration of its bond-buying program, the increase to 7.9% was favorable for mortgage rates.

Trade Deficit Shrinks (week ending 2/8/2013)

Following last week's packed schedule, there was far less major economic news this week. The global economic data that was released was generally a little stronger than expected. This was negative for mortgage rates, which ended the week a little higher.

The biggest surprise in this week's economic news came from Friday's data on imports and exports.

The December Trade Deficit declined to the lowest level since January 2010. Exports were higher than expected, and imports were smaller than expected. Since the first reading for fourth quarter GDP used an estimate of the December trade data, the actual results will almost certainly lead to an upward revision. Last week's release of fourth quarter GDP showed the first decline since December 2009, but economists now predict that it will be revised to show an increase of 0.5%. Stronger growth is great news for the economy, but it raises inflationary pressures and is unfavorable for mortgage rates.

The housing market data released this week also contained good news for the economy. According to the National Association of Home Builders (NAHB), the number of improving housing markets expanded for the sixth straight month in February. The index considers the levels of housing permits, employment and home prices to determine improvement. The latest report shows that 259 of 361 metro regions are improving (roughly 70%), up from just 12 regions in September 2011.

Retail Sales Increase (week ending 2-15-2013)

Improving economic growth in the US was negative for mortgage rates this week. This was mostly offset by weakness in Europe and Japan, however. As a result, mortgage rates ended the week just a little higher.

The biggest US economic report released this week was Retail Sales. Since Retail Sales account for roughly 70% of economic activity, this report is closely watched by investors and the Fed. Consumer Spending increased at a 2.2% annual rate during the fourth quarter of 2012, but investors are concerned that it may slow during the first quarter due to a number of factors, including this year's payroll tax increase and rising gas prices. Investors were pleased that the actual results showed that January Retail Sales posted a small increase from December. The full impact of the payroll tax increase may not be seen until February or March, though.

The news from Europe and Japan released this week revealed less impressive economic results. Fourth quarter GDP in the euro zone fell short of expectations, declining at a 2.3% annualized rate, the third straight quarter of negative readings. Even Germany, which had remained relatively strong during most of Europe's financial crisis, dropped at the same 2.3% annualized rate. GDP in Japan was expected to rise during the fourth quarter, but it also declined, for the third straight quarter. In general, slower global economic growth reduces future inflation expectations in the US, which is positive for mortgage rates.

Italian Uncertainty Helps Mortgage Rates (week ending 2-28-2013)

The biggest influence on mortgage rates this week came from the Italian election, which reignited investor concerns about Europe and prompted a flight to safer assets. Fed Chief Bernanke continued to show strong support for the Fed's bond buying program, which was also positive for mortgage rates. As a result, mortgage rates ended the week lower.

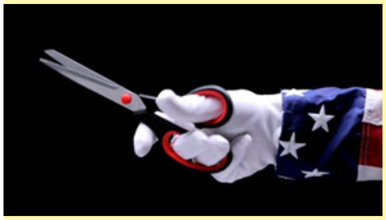
Monday's election in Italy showed very close results between the top three candidates, and it will be very difficult to establish a coalition government when no party has a majority. A long period of negotiations will take place, and another election may be required. What is clear is that there is widespread opposition in Italy to the austerity measures supported by the European Union (EU). Investors are concerned that the third largest economy in the EU will scale back reform measures, which could increase the risk that Italy will default on its debt or leave the EU. Investors shifted to safer assets, including US mortgage-backed securities (MBS), which helped mortgage rates improve.

Topping the US economic news this week was the implementation of mandated across the board government spending cuts on March 1 at midnight. Government spending will be reduced by $85 billion over the next seven months unless action is taken. While the cuts will slow economic growth and represents 2% of overall government spending, it amounts to about a 13% cut since we are already halfway through the fiscal year. Investors are looking ahead to the more significant March 27 deadline. Last year, Congress passed a "stop-gap" continuing resolution to fund the federal government through March 27. Once again, new legislation must be passed before then to avert a government shutdown.

MORE ODDS 'N' ENDS

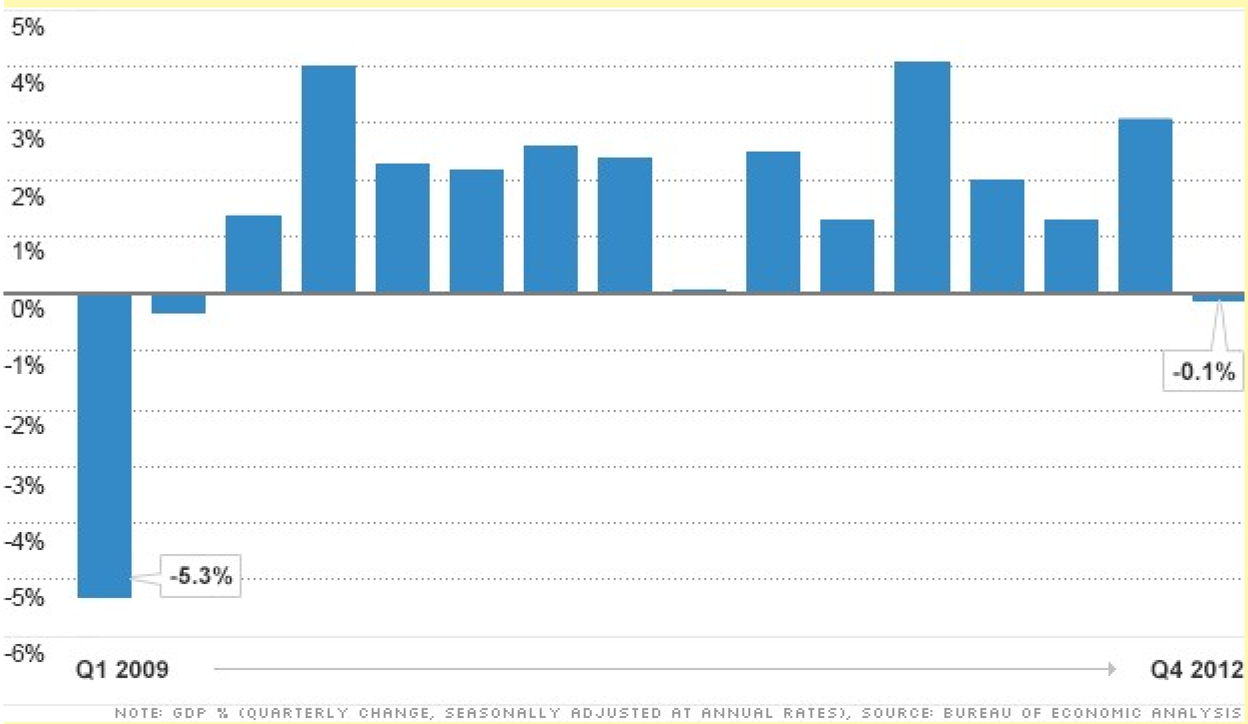
February is the shortest month of the year and like the month I ran short of time and took the easy way out—so, again this month's issue is another grab bag of various short items. I promise a new, in-depth topic for next month.

U.S. ECONOMY CONTRACTS FOR FIRST TIME SINCE RECESSION



Uncle Sam cut spending and businesses drew down inventories in the fourth quarter of 2012, causing the U.S. economy to contract for the first time in more than three years. Gross domestic product, the broadest measure of the nation's economic growth, contracted at an annual rate of 0.1% from October to December, the Commerce Department said Wednesday. It was the first quarterly contraction since the second quarter of 2009, amid the Great Recession.

While a contraction is never encouraging, economists pointed to temporary effects that may have caused a one-time dip, and they see better growth ahead. A large cut in federal spending, primarily on defense, was one of the biggest drags on growth.   Defense spending contracted at a 22% annual rate. Defense spending tends to be a volatile number in the GDP report, and is unlikely to decline so dramatically next quarter.



The other major drag came from business inventories declining in the fourth quarter. When that happens, it often signals businesses will have to buy more goods in the upcoming quarter to restock their shelves, which could lead to stronger growth in the first quarter of 2013. Businesses were selling in the fourth quarter, but not replacing the stuff on the shelves. When inventories fall in one quarter, they're really likely to rise the next quarter.

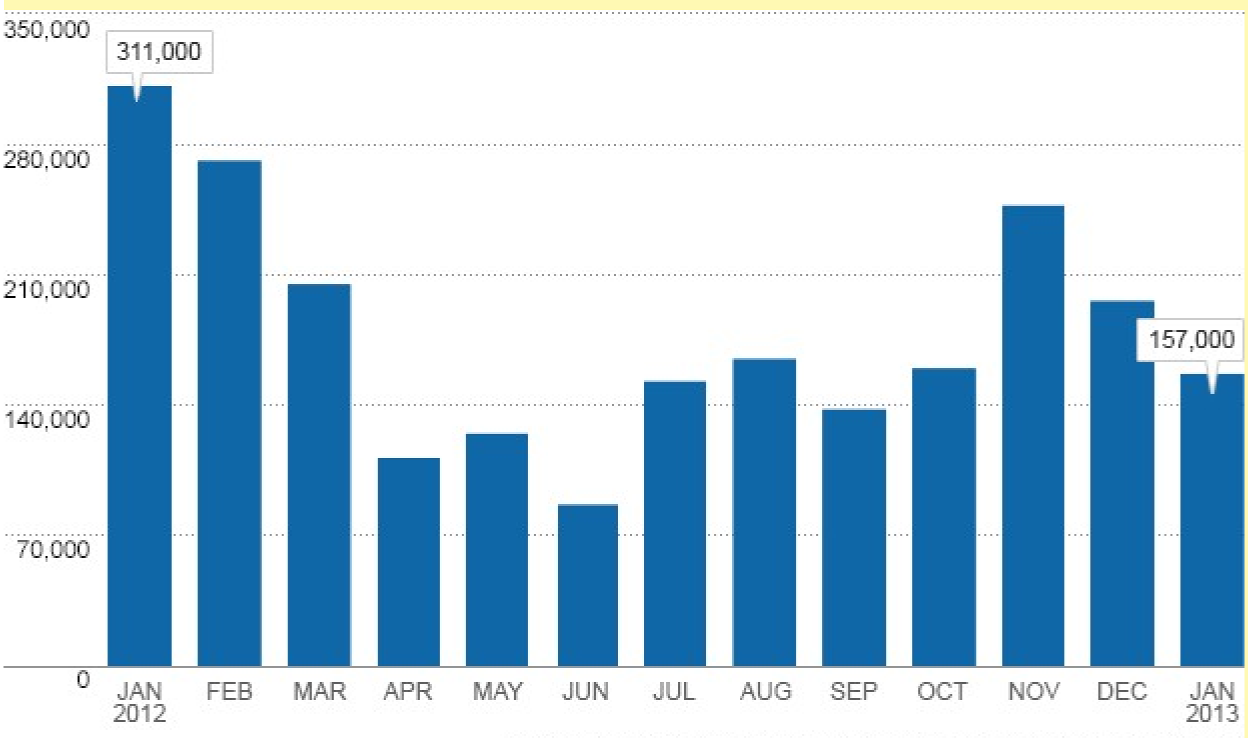
Some of that could be due to Hurricane Sandy. The Commerce Department estimates the storm led to a $35.8 billion loss in private fixed assets and an $8.6 billion loss in government fixed assets in the fourth quarter. Aside from those factors, there were positive signs in the report. Consumer spending makes up the largest part of the U.S. economy and accelerated at a 2.2% annual rate in the fourth quarter.

The momentum in the economy is positive, but not booming. Economists are predicting the U.S. economy will bounce back in the first quarter of 2013, and stay on trend with a 2% to 2.5% growth rate seen during the recovery. A gradual housing recovery is likely to be a big contributor to that growth.

Meanwhile, sequestration remains a threat to the economy over the short term, as chances are growing that automatic, across-the-board government spending cuts may soon take effect. The cuts could slash the amount federal agencies are allowed to spend by $85 billion over seven months. Weak global demand for American-made goods and services, particularly from Europe and China, also remains a concern.

The GDP report is the Commerce Department's first estimate for the fourth quarter figures. The government plans to revise the numbers twice over the next two months supply of both new and previously owned homes available for sale, and an improvement in the overall economy, including a lower unemployment rate. These factors are combining to bring potential buyers who have been scared to buy during the housing downturn back into the market.

JOBS REPORT: STEADY HIRING CONTINUES



The jobs recovery continued to crawl forward in January. The U.S. economy added 157,000 jobs in January, according to a Labor Department report released February 1st. Meanwhile the unemployment rate ticked up 0.1% to 7.9% as 12.3 million people were counted as unemployed. Overall, hiring is barely keeping pace with population growth, as the Labor Department noted that the unemployment rate has barely changed since September.

Economists are expecting job growth to continue in 2013 at roughly the same pace as last year, when the economy added 2.2 million jobs. They predict the unemployment rate will end the year at 7.5%. Construction hiring could be one of the highlights this year. It was the single hardest hit sector in the recession but has recently shown some signs of life. In January, construction firms added 28,000 jobs, reflecting a stronger housing market and rebuilding efforts after Hurricane Sandy.

The impasse between Democrats and Republicans remains in effect and the automatic spending cuts which aim to reduce deficits by $1.2 trillion over a decade will begin on March 1st but their effects will not be felt immediately in most cases.

In January, health care continued to be a strong sector for job growth, adding 23,000 jobs. Retail added 33,000 jobs, with about a third of those gains at clothing stores. Manufacturers added about 4,000 jobs, but the Labor Department noted that employment in this sector has changed little since July. Meanwhile, the government continued to cut jobs for the fourth month in a row.

The Labor Department also released revisions to its 2012 data, showing the economy added 335,000 more jobs during the year than originally reported.

HOUSING RECOVERY GAINS STRENGTH

The housing market recovery picked up steam in the final three months of last year, with prices rising at an annual rate of 7.3%, according to S&P Case-Shiller, while a government report showed sales of new homes also shot up higher. The home price increase marks the third straight quarter of year-over-year gains. The price report covered 20 major housing markets.

The number of new homes sold in January jumped more than 15% from December and nearly 30% from a year earlier, according to the Census Bureau report. There is only a 4.1-month supply of new homes available for sale on the market, the tightest supply by that measure since the bubble days of 2005. The improvement in the market is driven by many factors, including near record-low mortgage rates, a drop in the number of home foreclosures, the tight supply of both new and previously owned homes available for sale, and an improvement in the overall economy, including a lower unemployment rate. These factors are combining to bring potential buyers who have been scared to buy during the housing downturn back into the market.

The resulting rise in home prices was the biggest annual increase since the second quarter of 2006, near the height of the housing boom. The sales of new homes were at the highest level since July 2008, about two months before the bursting of the housing bubble slammed the brakes on home sales. But housing may not be able to continue to grow at this rate.

These movements, combined with other housing data, suggest that while housing is on the upswing, some of the strongest numbers may have already been seen. Barclays is forecasting a 6% to 7% price gain this year, and 5% to 6% in 2014. The rise in home prices can provide a lift for the economy as it increases household wealth and allows homeowners who had previously owed more than their homes were worth to refinance their mortgages, putting more money in their pockets.

The increase was broad-based, with 19 of the 20 markets showing gains in December. New York posted the only decline, with prices edging down 0.5% from a year earlier. Some of the markets with the biggest rise were those hurt the worst by the bursting of the housing bubble in six years ago -- prices jumped 23% Phoenix, 14.4% in San Francisco, nearly 13% in Las Vegas and just over 10% in Miami and Los Angeles. Detroit enjoyed a 13.6% rebound in prices.

The recovery in housing prices hasn't been even across all the different price segments: The upper end of the market has done well as the wealthier families' earnings have recovered and foreign buyers have come into the market. The lower end of the market has recovered due to purchases by investors looking for bargains. It's the middle market that needs help—particularly in the form of higher income—if it is going to have a sustained recovery

FHA TO HIKE PREMIUMS ON MORTGAGES

Government-insured mortgages are about to get more expensive. The Federal Housing Administration is raising premiums and taking other measures in order to bolster its capital reserves and reduce its exposure to risky loans.

The Federal Housing Administration, which is the largest insurer of low-down payment mortgages, announced that it will **raise premiums by 10 basis points**, or 0.1%, on most of the new mortgages it insures. Translation: A borrower opting for a 30-year, fixed-rate mortgage who puts 5% or more down will now pay an annual insurance premium of 1.3% of their outstanding balance. And someone who puts less than 5% down will pay a premium of 1.35%.

The agency said it will also raise premiums for borrowers with **high balance conforming loans** ($417,000 to $625,500)—by 5 basis points, or 0.05%, and increase the minimum down payment requirement on these loans to 5% from 3.5%.

FHA said it will require most buyers **to pay insurance premiums for the life of their loan**. A policy that was put in place in 2001 allowed borrowers to cancel premium payments once their debt fell below 78% of the principal balance. One exception will be for borrowers who put more than 10% down at the time of purchase.

Additional new policies include a requirement that **any mortgage for an applicant with less than a 620 credit score and debt-to-income ratio above 43% must be underwritten manually**. Lenders who want to issue loans to these applicants must be able to adequately document why they decided to approve the loans.

The agency also decided to put new restrictions on **reverse mortgages**, no longer permitting retirees to take such large, upfront payments.

The changes are an effort to reduce the agency's exposure to risky loans and bolster its financial reserves, which have been depleted due to high delinquency rates from the mortgage crisis. The agency did not say when the new rates will take effect.

Last spring, FHA increased both premiums and upfront costs on mortgages. Such hikes make it tougher for mortgage borrowers -- especially first-time purchasers who can't afford the large down payments most private lenders require today as they are the ones most likely to turn to the FHA for credit.

MORTY'S MAILBAG

A. **How do you think mortgage brokers like yourself stack up against online brokers like Lending Tree.Com?**

Q. My answer is going to sound self-serving because naturally I have a vested interest here, but I believe that mortgage brokers, like me, are a better deal for a variety of reasons. Here are a three of the more salient ones:

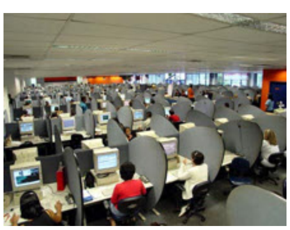
1. Price. First off, you are apt to get better pricing because mortgage brokers tend to have a lower overhead, in that most of their business comes from referrals from realtors or former clients. Understand, Lending Tree, e-loan, Quicken, or Price My Loan aren't lenders, per se, they are mortgage lead brokers, that is, they operate exchanges whereby they sell your data to finance lenders and loan originators. Typically, the entities that purchase the bulk of these leads are finance lenders (corporations) which are licensed under the Department of Corporations (DOC). The lead purchasers pay a fee to Lending Tree *et alia* for the lead. Those that are willing to pay the most get first crack at a new lead. After three or 4 days, the lead is sold again to a second tier buyer. In week 2 or thereabouts, this same lead is then resold a third time. All in all, Lending Tree sells your information (name, phone number, email address) 4 times. Since the lenders and originators have to pay for these leads, they recoup the cost of buying leads by passing on the cost to the consumer. Of course, there are mortgage brokers who also purchase leads. Similarly, they price these purchases into their business model to cover their costs.

(a) Now, let's say the leads cost $20 apiece and the finance lender purchased 100 leads for an expenditure of $2,000. The leads are distributed to various loan originators. Not every lead generates a loan because the people filling out the loan applications for Lending Tree and others are often times just shopping around, not qualified, curious or what have you. So, for the ease of the arithmetic let's say that the loan originators close 10% of the leads they are given. (Note: the industry norms are between 11-13%). Obviously, not all loan originators (LOs) are equal, some are better than others at "closing". So, imagine the pressure that an LO is under if he has burned through about 20 leads ($400 worth) with no "sales". Do you think he might be inclined to fudge things a bit to get the sale (and conceivably save his job)?

(b) When people's jobs are on the line, it's not surprising the extent to which they will not be as forthcoming as they would have been had that not been the case. I've had a number of instances where I've been referred business and told the borrower(s) that it was not in their best interest to refinance at the current time (or rate). They were surprised by my candor because the other brokers seemed more focused on the quick buck than the client's benefit—they all said the same thing—"Let's do it". When you don't know who you are dealing with, doing a loan becomes very much of a crap shoot

2. <u>Professionalism</u>. Mortgage brokers operate under the auspices of the National Mortgage Licensing System (NMLS) and the Department of Real Estate (DRE). As such they have a fiduciary relationship to their clients involving a high degree of trust, fidelity, integrity and confidence.

   (a) A California Finance Lender (CFL) is under the aegis of the Department of Corporations. A loan officer working under a California Finance Lender's license may be doing many of the same things that a mortgage broker or banker does but is not as accountable, nor are they required to be licensed by either the NMLS or the DRE. The courts have held that employees working under CFL licenses do not have a fiduciary responsibility to their clients. Thus, there are conceivably individuals working under a corporation's license out there doing loans that were flipping hamburgers last week.

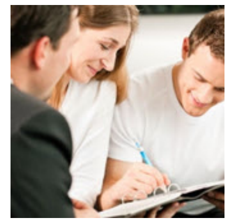


   (b) Someone I personally knew went to work for a finance lender with no previous training or knowledge. His knowledge base was scant; it was limited to his owning a home with a mortgage on it. His split at this "mortgage mill" was roughly a third; the rest of the loan origination fee went to the finance lender that paid for the leads. The only way for him to survive was by doing more volume to off-set the drastically lower commission. Consequently, if one deal fell apart or two, or even three he didn't have as much of a vested interest because he was not dependent upon that deal for his entire pay check. The expression "turn and burn" comes to mind here because if he(she) encounters much resistance or difficulty with the loan the easiest thing to do is to simply drop it and move on to another file that would be less complicated or easier to close.

Naturally, if one's loan is difficult or complex it may not get the requisite professional attention that it would need to close.

(c) Good brokers are highly recommended and have their reputations to uphold. The broker who has a steady stream of referrals is much more likely to do the right thing than one who purchased your name and address from a leads broker. Mediocre brokers need to solicit constantly, whereas good brokers enjoy referrals from Realtors and satisfied previous customers. Obviously, it is not the case that good brokers never solicit, but other than "newbies", established ones rarely need to buy leads from lead brokers like Lending Tree, e-loan, Quicken, or Price My Loan.

(d) Unless the finance lender happens to reside nearby, the likelihood of someone from Quicken or Lending Tree attending signing loan docs is virtually zero. To be fair, mortgage brokers rarely attend signings because it's seldom necessary. But if the borrower is a novice, having the broker available to help explain things is a major source of comfort. If it's important to you, ask the rep if he/she will attend the closing.



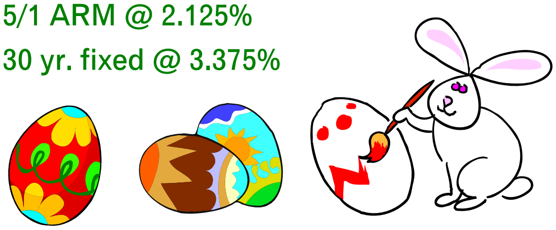
3. Experience. A few years back, to see how I compared with them, I filled out one of Lending Trees on-line forms. About 48 hours later I received a call from a rep from some outfit, which I'll call lender A. The upshot of the conversation was that he knew very little about lending or my ability to qualify for the loan he was proposing, but he thought the way to "close" me was to tell me how much I could save in terms of a monthly payment. A week later, I received a call from financial lender B who was slightly more knowledgeable than the first about programs and so forth, but his rates were substantially higher than what I knew to be available. Two weeks in, I received my third call and this gentleman was by far the most informed in terms of knowledge, rate and price. Three weeks down the road I received my final call from lender D at a bucket shop (you could hear chatter in the background that suggested that the rep was in a sales bull pen with several other sales people pitching their products). Not surprisingly the last guy was clueless about products, programs, etc. I suspect that in this case, the leads that had been purchased were at a substantial discount and were being given to "newbies" on which to cut their teeth and gain sales experience.

Bottom line: As with so many things in life, you get what you pay for. Remember, **if price is what you pay and value is what you get, does price matter if you don't get value?**

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

SPECIAL(S) OF THE MONTH

- Conforming 30 yr. fixed @ 3.250%
- Conforming 5/1 ARM @ 2.125%
- Conforming 5/1 Interest Only ARM @ 2.125%
- High Balance conforming 30 yr. fixed @ 3.500%
- Jumbo 5/1 ARM @ 2.125%
- Jumbo 30 yr. fixed @ 3.375%



MORTGAGE MIRTH

Knowledge is knowing a tomato is a fruit; wisdom is not putting it in a fruit salad.

RATE SUMMARY

*Rates have eased slightly in the past month ↓
*Conforming loan rates are virtually unchanged with the 5/1 I/O down ¼ ↓
*Jumbos are 1/8th to a 1/4th cheaper ↓
*Governments are 1/8th lower ↓

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.

NEXT ISSUES TOPIC:

Escrow 2.0