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mortgagestraightTalk.com

Tel 760 726 4600

Cel 760 717 8584

Fax 760 639 0785

Rod@mortgagestraightTalk.com

IN THIS MONTH'S ISSUE

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Jobs Data on Target **(Week ending 6/7/2013)**

This week, investors were focused on Friday's monthly Employment report. A high degree of volatility preceded the report, but the net result of the large daily movements was just a small increase in mortgage rates for the week.

Against a consensus forecast of 165K, the economy added 175K jobs in May. There were slight downward revisions to the figures from prior months. The Unemployment Rate unexpectedly increased to 7.6% from 7.5%, but this was entirely due to additional people entering the labor force. As a reminder, the Unemployment Rate measures the percentage of people who want to work but are unable to find a job. If the number of jobs holds steady, and more people decide that they want to work, the Unemployment Rate goes up. In short, there were few surprises in this report.

Given the influence of labor market data on the Fed's bond buying program, the level of daily volatility both ahead of the Employment report and following its release was extremely high. Weaker than expected labor market indicators from ADP and Jobless Claims caused investors to position for a shortfall in the Employment report, pushing mortgage rates a little lower ahead of the data. When the results essentially matched the Wall Street consensus, mortgage rates gave back the improvement. The middle of the road labor market data provides little guidance for investors trying to determine when the Fed will begin to scale back its bond purchases. High levels of volatility are likely to continue ahead of the next Fed meeting on June 19.

Looking Ahead to Fed Meeting **(Week ending 6/14/2013)**

Shifting investor expectations about the timing of Fed tightening worked in favor of mortgage rates this week. The economic data released this week had little impact. As a result, mortgage rates ended the week a little lower.

The Fed has used two primary approaches to stimulate the economy and to help push mortgage rates to historically low levels. Everyone has focused a lot of attention lately on the Fed's bond purchase program, which the Fed is expected to begin to scale back before too long. This program was initiated to provide additional stimulus after the Fed had cut the fed funds rate to near zero and could go no lower. Until recently, investors expected that the Fed's first hike in the fed funds rate would not take place until mid-2015. A shift forward in expectations for the first Fed rate hike has been one of the forces moving mortgage rates higher.

An article written on Thursday from a noted Fed watcher addressed the question of when the Fed will raise the fed funds rate. The article suggested that Fed officials do not agree with investors that economic conditions have pulled forward the likely timing of Fed rate hikes. Rather, Fed officials still expect that the first rate hike will take place long after the end of the QE program. This article caused mortgage rates to move lower at the end of the week.

Fed Lays Out Plan to Taper **(Week ending 6/21/2013)**

It began as a decent week for mortgage rates. Ahead of Wednesday's highly anticipated Fed meeting, mortgage rates were a little lower on a week-over-week basis, as reflected in the weekly survey from Freddie Mac. Investors, however, pushed rates significantly higher after the Fed statement and press conference.

The Fed's massive bond buying program has greatly increased the demand for mortgage-backed securities (MBS). Since mortgage rates are mostly determined by MBS prices, the added demand for MBS has been a major factor in the decline in mortgage rates to historically low levels. Wednesday's Fed statement and follow-up comments from Bernanke provided the clearest signal yet that the extra demand from the Fed will soon begin to shrink. The Fed's forecast for economic growth and the level of unemployment have improved. The statement noted that the downside risks to the economy have diminished. Bernanke even went so far as to say that if interest rates increase "for the right reasons" it is a "good thing." Any investors who had been hoping for signs that the Fed would not soon slow its bond buying program were very disappointed. Instead, the Fed signaled that if their economic forecasts are accurate, then the tapering of bond purchases will begin later this year and conclude in the middle of next year.

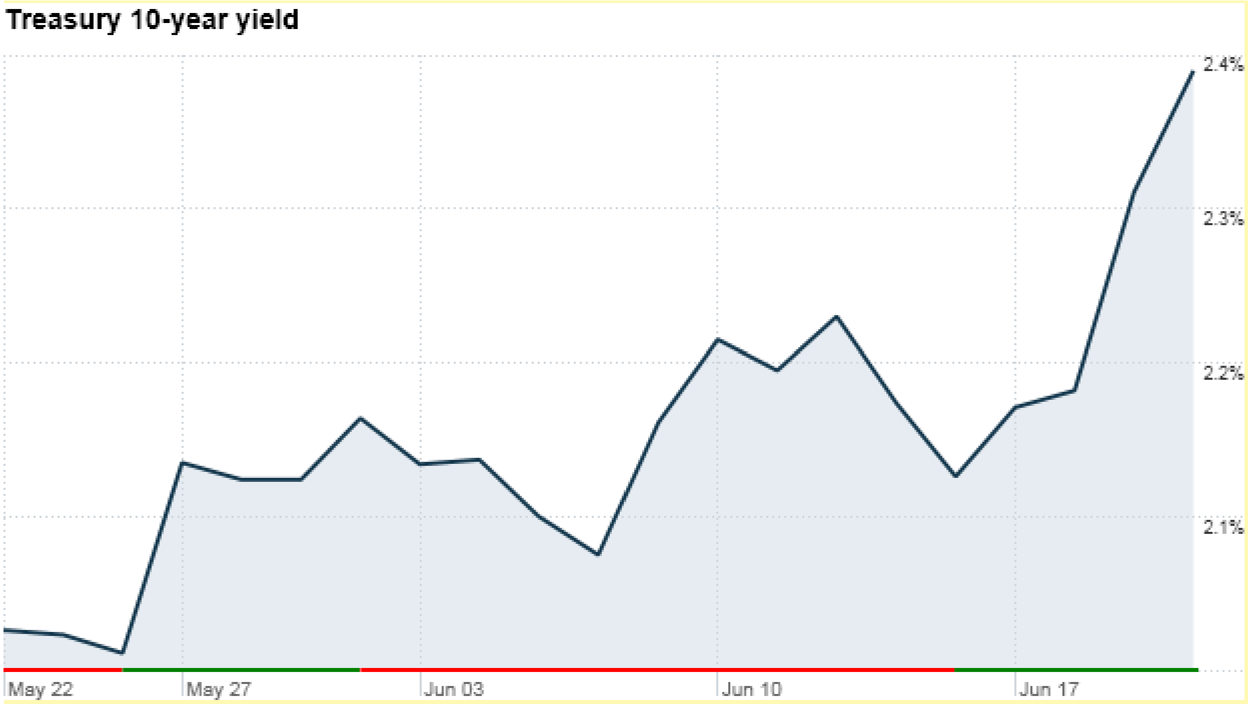
One of the main sources of strength in the economy which has helped convince the Fed that it's nearly time to taper is the housing market, and the data released this week continued to show improvement. May Existing Home Sales increased 4% to the highest level since November 2009 (when the home buyer tax credit was about to expire). Total housing inventory of existing homes available for sale rose 3%. May Housing Starts increased 7% from April. Single family Building Permits rose to the highest level since May 2008. The June NAHB Homebuilder confidence index posted a large increase to the highest level since April 2006.

Editor's note: **In a rising stock market, money normally flows out of the bond market and into the stock market to reap the higher rates of return (via dividends and price appreciation) to be earned there. Conversely, when the stock market tanks, money flows out of equities and into bonds, but recently we have seen both the stock market selling off and the bond market falling. Bond prices, which move in the opposite direction of bond yields, have fallen and consequently bond yields have rocketed. As the bond yields have rose, so too, have mortgage rates because their yields are similarly tied to the price of mortgage-backed securities. The resultant volatility in the bond markets has produced numerous intraday changes in mortgage rates during the past 45 days. This past month we've seen mortgage rates increase significantly—as much as a half-percent between June 13th and June 20th.**

Market volatility has been driven largely by fears that the Federal Reserve might begin to ease its bond ($45 billion/month) and mortgage backed securities purchases ($40 billion/ month) if the economy continued to improve. But those fears were allayed to some extent following the Commerce Department's worse-than-expected report on first-quarter gross domestic product, which showed the economy grew just 1.8% during the first quarter. The prior estimate showed an annual increase of 2.4%, and economists were expecting that figure to hold. Ironically, bad news has become good news for the equities markets and it remains unusually bad news for the bond market and mortgage rates.

What follows are a few articles to provide the reader with some additional perspectives on real estate sales and financing.

BOND YIELDS SPIKE TO 2 - YEAR HIGHS



Investors have continued to bail out of bonds. On June 20th, a day after Federal Reserve chairman Ben Bernanke said the central bank is preparing to scale back its bond buying program, IF THE RECOVERY REMAINS ON TRACK. The heavy sell-off pushed the 10-year Treasury yield as high as 2.46%, a level it hadn't previously touched since August 2011. Yields on several other government bonds also spiked to their highest levels in nearly two years. Last month, the yield was as low as 1.63 percent.

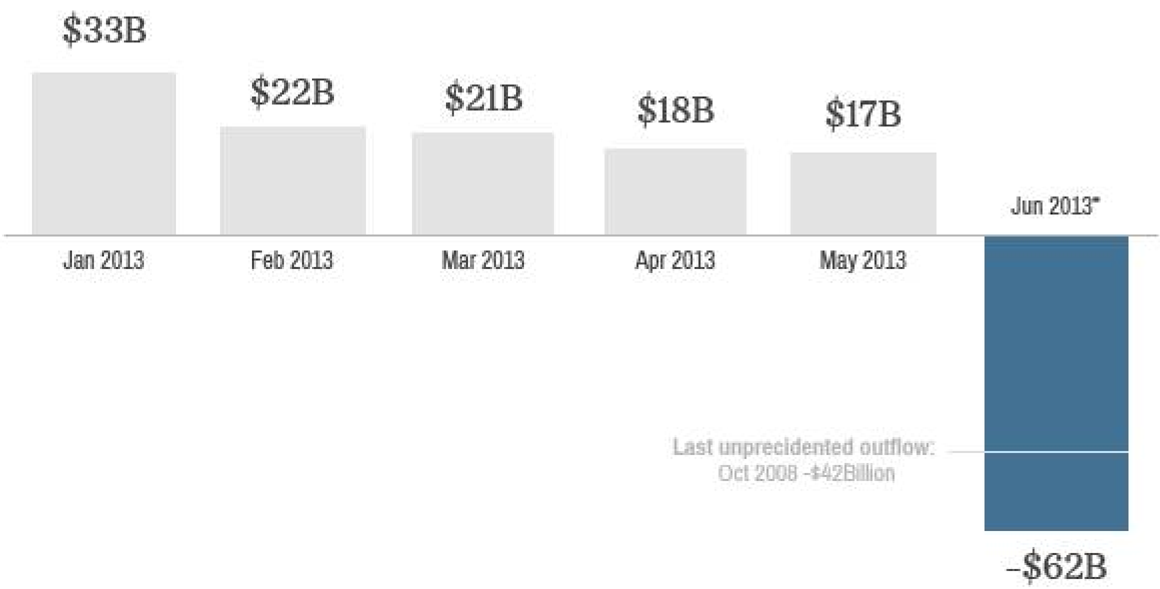
Investors have been bailing out of bonds and sending yields higher during the past month amid speculation that the Fed will soon begin to taper its monthly bond purchases, known as quantitative easing. The Fed currently buys $85 billion a month in mortgage-backed securities and Treasuries.

On June 19th, Bernanke did his best to give a timeline of how the tapering could work. The Fed chief said if the economy continues to improve in line with the Fed's outlook, it would be "appropriate to moderate the monthly pace of purchases later this year," and end the program by the time the unemployment rate comes down to 7%, which the Fed expects will be around mid-2014. Bernanke also made it clear that a hike in the Fed's key short-term interest rate, which stands near zero, is "still far in the future."

But that didn't stop nervous bond investors from selling more the following day. Most investors have been expecting the Fed to begin tapering back bond purchases for quite some time, so that's not a surprise, but since we've had rates held artificially low for an extended period of time, there's a springboard bounce in rates. The 10-year Treasury yield is expected to steady around 2.5% by the end of the year.

The big spike in bond rates may be an unwelcome shock for investors, particularly retirees, who had been rushing into Treasuries because they though these were relatively safe assets to own. The past month has been particularly rough, with big moves down in bond prices and stocks.

INVESTORS YANK RECORD $62 BILLION FROM BONDS

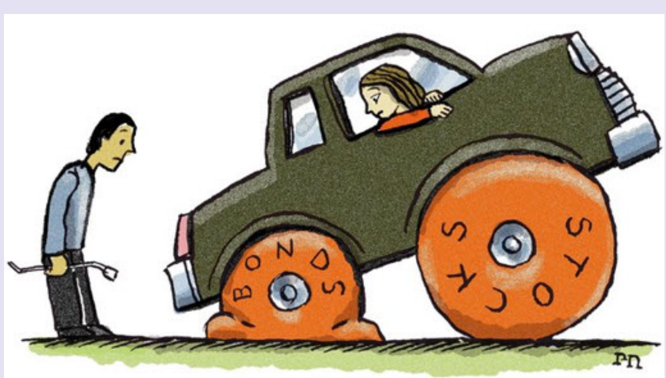


*JUNE DATA THROUGH JUNE 24; SOURCE: TRIMTABS INVESTMENT RESEARCH

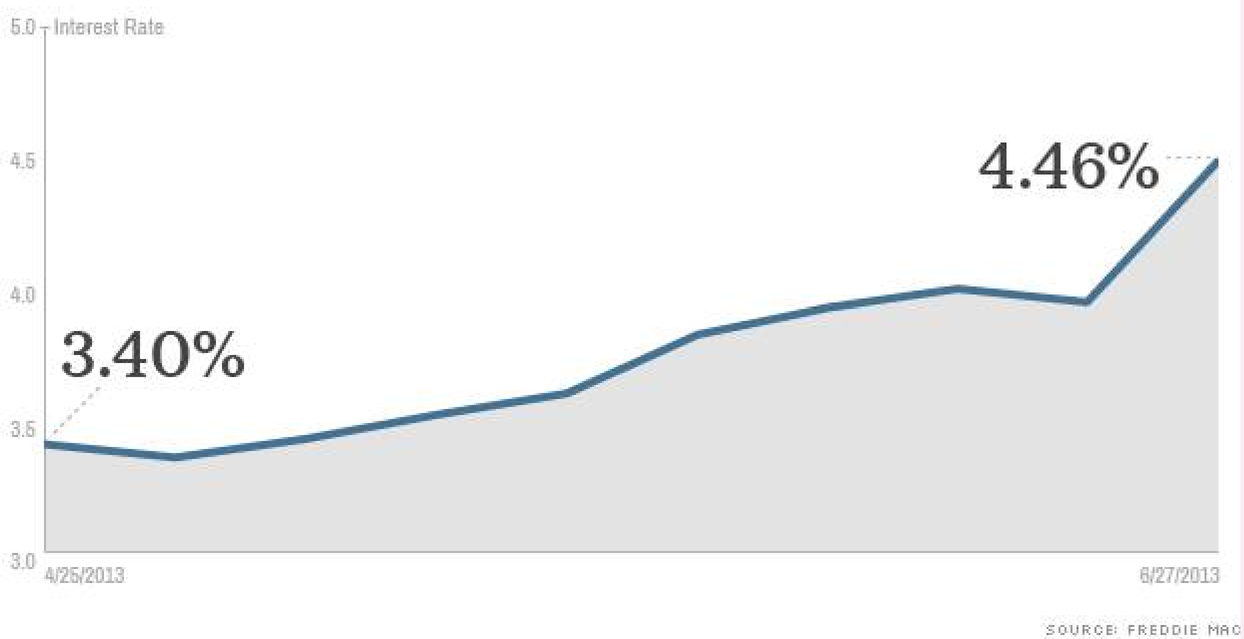
Fears of Fed stimulus drying up has sent investors fleeing bonds. So far this month, they've pulled a record $61.7 billion from bond mutual funds and exchange traded funds. The outflow, which surpassed the previous record of $41.8 billion at the height of the financial crisis in October 2008, is a sharp reversal of the recent trend. Investors had plowed $111.2 billion into bond funds during the first five months of the year, but more than half of that has now been yanked out.

The exodus comes as Federal Reserve officials, including chairman Ben Bernanke, have suggested that the central bank could taper the pace of its $85 billion-per-month bond buying program this year, assuming the economy continues to improve.

Investors have been dumping bonds, and driving yields higher, since early May. The yield on the 10-year Treasury note hit 2.65% (6-25). That's its highest level since August 2011 and sharply higher from 1.6% at the start of May. The 10-year yield hit a record low of 1.44% a little more than a year ago.



MORTGAGE RATES SOAR TO 4.46 - BIGGEST JUMP IN 26 YEARS



Rising interest rates have hit mortgages big time. Rates on 30-year, fixed-rate home loans spiked 0.53 percentage points to an average of 4.46% this week--the largest weekly increase in more than 26 years, mortgage giant Freddie Mac said (6/27). The 30-year loan, which stood at 3.35% as recently as early May, is at its highest level since July 2011. Rates for 15-year loans, popular with homeowners refinancing their mortgages, jumped 0.46 percentage points to 3.5%.

An extra percentage point will cost homebuyers with 30-year, fixed-rate mortgages $56 more a month for every $100,000 they borrow. "If sustained, the rate increase will take some of the steam out of the housing market," said Mark Zandi, chief economist at Moody's Analytics.

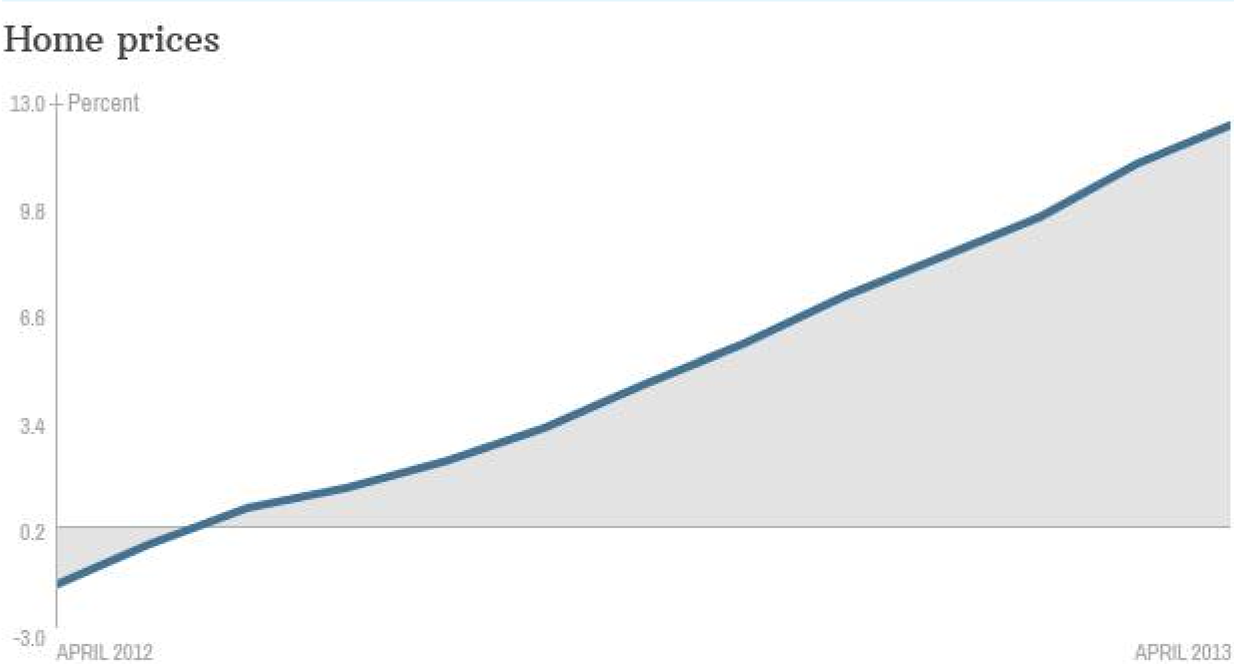
The sudden jump in rates is driven by uncertainty over whether the Federal Reserve's economic stimulus program, called quantitative easing, will continue. The aftermath of the Fed meeting and Mr. Bernanke's remarks...about the future of QE continue to roil markets. Even though the chairman spoke about tapering QE over what will likely be an extended period of time—through mid-2014 at least—bond market participants headed for the exits.

While the recent rise in rates has homebuyers on high alert, it might not be enough to cool the housing market. Home prices have risen 12% but are still about 28% below their 2006 peak. And, despite the recent spike, rates are still well under historic norms. "Rates are still reasonable," said Zandi. "Going from 3.5% to 4.5% is not helpful, but it's not enough to make a big difference."

HOME PRICES JUMP 12%, NEW HOME SALES HIT A 5-YEAR HIGH

Increases in home prices have been accelerating steadily over the last year. The housing recovery continues to pick up steam, as home prices jumped in April, and new home sales hit a five year high in May. But the recent increase in mortgage rates could soon put the brakes on housing.

The S&P/Case-Shiller home price index was up 12.1% in April, compared to a year ago, in the 20 top real estate markets across the nation. That was the biggest annual jump in prices in seven years. Prices climbed 2.5% from March, posting the biggest one-month rise in the 12-year history of the index.



12-MONTH PERCENTAGE CHANGE IN HOME PRICES IN 20 MAJOR MARKETS.; SOURCE: S&P/CASE-SHILLER HOME PRICE INDEX

New homes sold at an annual pace of 476,000 in May, according to a separate government report. That's the best reading since July 2008, just before the global financial meltdown slashed homebuyers' access to credit. The pace of sales was up 2.1% from April, and up 29% from a year ago. The median price of a new home sold in May was $263,900, down 3.1% from April, but those month-over-month comparisons are often volatile. Even with the monthly decline, new home prices were up 10.3% from a year earlier. A drop in foreclosures, coupled with a tight supply of homes for sale and mortgage rates that hit record lows, have fueled the rebound in housing over the last 11 months.

But the 30-year mortgage rate has risen to nearly 4.25%, up from 3.35% at the start of May. While that is still low by historical standards, it's trimmed about $12,000 off of an average buyer's purchasing power. Mortgage rates began to climb in May, after April's sharp jump in home prices was recorded. The rapid rise in home prices that's fueling the housing recovery could actually help derail it, as it makes purchases more difficult for potential buyers. Even the National Association of Realtors warned last week that "home price growth is too fast," and said that the market needs significantly more home building and better access to credit for buyers.

In general, the national housing recovery is strong and sustainable, but pockets of volatility will emerge. Buyers expecting home values to continue rising at this pace indefinitely may be in for a shock. Still, higher costs for home buyers shouldn't derail the recent recovery, according to Joseph LaVorngna, chief U.S. economist at Deutsche Bank. "Affordability remains near historic highs, despite the recent rise in rates and home prices," he said. And while banks might be charging higher rates, they are likely to ease lending standards for mortgages due to the stronger prices. That should make it easier for some buyers to qualify for home loans.

MORTY'S MAILBAG

Q. A month or so ago, I received an email that contained the following comment: "your website pricing page is a bit misleading." The writer was right. My bad! What he was alluding to was that under PRICING on the website I had the following:

> *I let borrowers price their loans. What I mean by this is that I have a set fee structure and borrowers can either pay my fee in the form of an origination point or have the lender pay my fee in the form of a rebate or some combination thereof. I charge a point (1%) for a purchase on "A paper" loans and a point and a half (1 1/2 %) for a refinance.*

A. To begin with the fees were mislabeled: it should have been just the reverse as purchases are more problematic than refinances.

Nevertheless, this was on MY OWN website so I have to accept responsibility for it. Although I go up there at least once or twice a week, I hadn't bothered to review some of the pages posted there since god knows when. But, it had to have been at least 3 years since that's how long it's been since the Federal Reserve Board (FRB) imposed several sweeping changes to the mortgage industry. Our fees are now mandated by the government in a Rube Goldberg fashion involving separate lender paid compensation agreements with each lender. (Don't get me wrong, I believe industries should be regulated to curb excesses and to protect consumers). Unfortunately, poorly drafted legislation creates more problems than it solves. Among these are myriad new forms that obfuscate rather than clarify matters for the lay public.

Nonetheless, on January of 2010, the new regulations went into effect specifying that brokers are no longer able to negotiate their fees as we have in the past. In times gone by an origination fee of 1% was often the norm, with especially complex or particularly small deals commanding a higher percentage because of the work involved vs. the remuneration associated with it. Often times, the broker kept the origination fee at 1% and collected additional fees on the backend in lender credit also known as the Yield Service Premium (YSP). The funds from the YSP were not paid by the borrower, but by the lender to the broker. Unfortunately, there were particularly, greedy brokers who often made a habit of charging their clients 1% on the front and got 2% on the back end in YSP, in effect making 3% when they should have been paid far less. If the borrower, questioned this, the broker would often say, "What do you care if I make a few extra bucks? It's not coming out of your pocket" (meaning the borrower's). But in reality it was, because the borrower could have gotten a lower interest rate were the broker to accept a lower YSP, or none at all.

To curb the abuses of the greedy few, the rules were re-written for all.

As of 2010, there was no more YSP, any lender credit belonged to the borrower. Further, brokerages were mandated to have set Lender Paid Compensation (LPC) agreements with each lender. The agreements are company-wide so that every mortgage broker under Cypress Mortgage (my parent company) is bound by the agreement between Cypress and that lender. The FRB allows different compensation agreements with lenders in the range of 1% to 3.5%. At Cypress, ours range from 1% to 2.125%. Typically, brokers use lenders with whom they have higher lender paid compensation percentages like 1.75% or 2% and so forth for very small loans or the more paper-work laden files like FHAs and VAs.

The other notable change was that we can no longer charge for processing, it is incorporated into the loan origination fee unless it is done by a licensed third party (outside of the brokerage). Ironically, processing is the most time-consuming and labor-intensive aspect of the mortgage industry, but as I said we can no longer charge for it unless we outsource it and only certain lenders allow you to outsource these fees as part of their LPCs. To offset the additional work, mortgage brokerages simply bumped up their fees from 1% to say 1.5% to pay their in-house processors.

For small loans under $200k, the problem has become somewhat dire because nobody wants to do them because the work is the same but there is little or no money to be made on them. For example, if you have a $150k loan and your LPC agreement is 1.5% then the origination fee is $2250. After you pay $150 for Errors and Omissions insurance, the brokerage is left with $2050. Six to seven hundred goes to the processor leaving the brokerage with a net commission of say $1500. Of which they claim 20 or 25%, leaving the broker or loan originator with $1,100 to $1,200 for 6 weeks work. Ours is no longer a well paid profession.

This has become a real problem because the big banks don't want to mess with such small loans and even credit unions are turning them down. On top of this, as lender's guidelines have tightened, where we used to have 3 or 4 prior to doc (PTD) conditions and a similar number of prior to funding (PTF) conditions, now 25-30 are the norm. We are now working three times as hard for half the money.

One final comment here with respect to loan origination fees that most of the public doesn't understand: The loan origination fee that you see on the GFE is not the brokerage's fee; it is a COMBINATION of the brokerage's loan origination fee and the lender's administration or underwriting fee.

Loan amount of $417,000 X 1.5% (brokerage's LPC) = $6255
Lender's underwriting or administration fee) + $895
$7150

This is the reason that for a conforming loan amount of say $417,000 a borrower will see an origination fee of $7,150 on the GFE.

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

- Conf. 5/1 ARM @ 2.750% & Conf. 5/1 Interest Only ARM @ 3.375%
- Conforming High Balance 30 yr. fixed @ 4.25%
- Conforming High Balance 15 yr. fixed @ 3.375%
- Jumbo 5/1 ARM @ 2.875%
- Jumbo 30 yr. fixed @ 4.625%
- FHA/VA High Balance Conforming 30 yr. Fixed @ 3/75%/3.875%
- DU Refi Plus 30 yr. fixed conforming @ 4.00%

RATE SUMMARY

Market volatility has continued and rates have climbed in the past 30 days

*Conforming loan rates are 3/8th to 1/2% HIGHER ↑
*Jumbos are similarly 5/8ths HIGHER ↑
*Governments are 3/8ths to 1/2% HIGHER ↑

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.

MORTGAGE MIRTH