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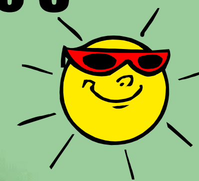


IN THIS MONTH'S ISSUE

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

RETAIL SALES BELOW TARGET (WEEK ENDING 7/19)

Weaker than expected Retail Sales data helped mortgage rates this week. Soothing comments from Fed Chief Bernanke also were a positive influence, and mortgage rates ended the week lower.

The monthly Retail Sales report measures spending by consumers, which accounts for about 70% of economic activity. Monday's report revealed that Retail Sales were higher in June than in May, but the increase was much smaller than expected. The shortfall caused economists to lower their forecasts for second quarter GDP. When economic growth indicators are below the consensus forecast, future inflation expectations are reduced, and this is favorable for mortgage rates. As has often been the case in recent months, the reaction in mortgage rates was magnified somewhat by the importance of incoming data on future Fed policy.

On Wednesday and Thursday, Bernanke answered questions before Congress in the regularly scheduled semi-annual testimony. Overall, there were no significant surprises in Bernanke's comments, but his tone was a bit more dovish than in previous communications, which helped mortgage rates. He emphasized that the Fed's bond purchases are not on a "preset course", but rather will depend on future economic data. While his comments caused investors to push back their expectations for when the Fed will begin to taper its bond purchases, the comments also added to the uncertainty about the timing, which means that mortgage rates likely will remain very volatile in coming months.

ECONOMIC DATA IS MIXED (WEEK ENDING 7/31)

This week was packed with major economic reports and a Fed meeting. With investors looking for hints about when the Fed will begin to taper its bond purchases, the data caused a great deal of **volatility**. Because the economic news was roughly **neutral** overall, though, mortgage rates ended the week just slightly higher.

The economic data released on Wednesday, Thursday, and Friday caused large swings in mortgage rates. Positive news on economic growth was bad for mortgage rates and vice versa. Second quarter **GDP** increased 1.7%, above the consensus of 1.1%, and mortgage rates jumped. Then, **ISM Manufacturing** unexpectedly increased to the highest level since June 2011, pushing mortgage rates even higher. When Friday's highly anticipated **Employment** data was a little weaker than expected, though, mortgage rates reversed nearly the entire increase seen earlier in the week.

The reaction to these reports was exaggerated. A big reason for the **volatility** is that the Fed has indicated that future policy changes will depend on the performance of the economy. Investors had hoped that the Fed would provide more concrete guidance this week on its plans to begin to taper, but Wednesday's Fed statement provided no additional clarity. The consensus view is still that the Fed will begin to scale back its bond purchases in **September**, unless economic growth weakens significantly. As long as a high level of uncertainty remains about when the Fed will taper, volatility is likely to stay elevated.

The Unemployment Rate fell to the lowest level since Dec. 2008.

Core PCE inflation was just 1.2% higher than one year ago.

Pending Home Sales were 11% higher than one year ago.

The European Central Bank (ECB) made no change in rates.

THE MOST COMMON MISTAKE HOMEOWNERS MAKE

As a mortgage broker, the most common mistake that I see homeowners make is one that accounts for 70% of my business. Though it is expensive, owner/borrowers repeat the same mistake time and again. What is it that is so egregious, yet a continual source of business for me?

BORROWERS REFINANCE FROM ONE 30-YEAR MORTGAGE IN ANOTHER 30 YEAR MORTGAGE AT A LOWER RATE.

But if they're refinancing at a lower rate, what's wrong with that? Why do I say this is a mistake? Because smart borrowers realize that having a loan with a shorter term is more important than a lower rate. What they should be doing is refinancing from a 30 year term into a 25, 20 or even better, if they can afford it—a 15 year term. By doing this, not only would they have a lower interest rate, they would (in the following example) also be saving $278,528 in interest expense ($229,418 with 15 yr. vs. $507,946 with a 30 yr.).

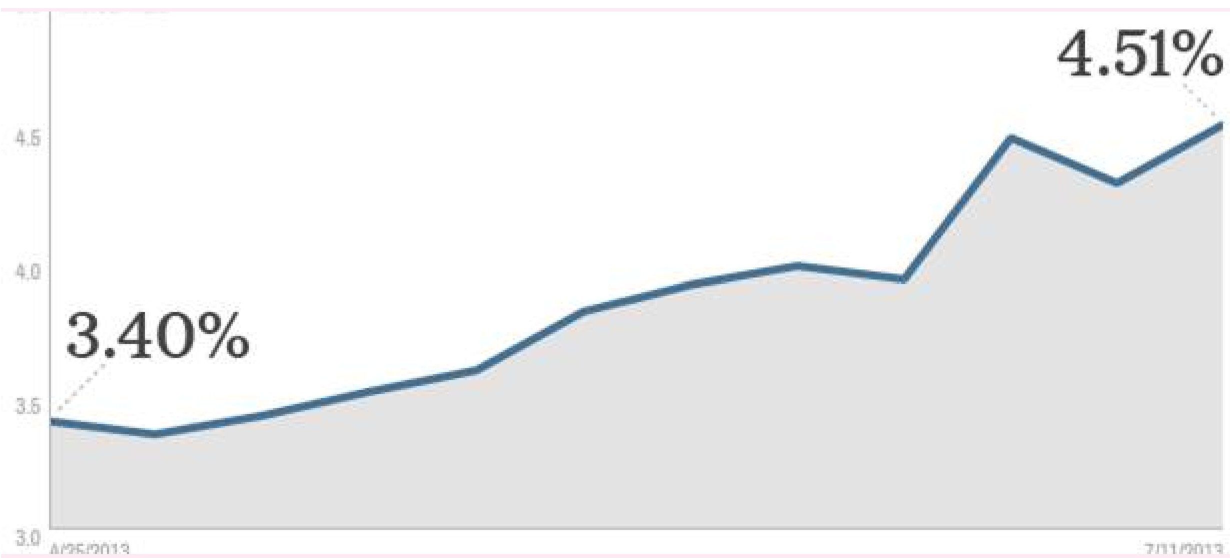
For example, with a 30 yr. fixed rate mortgage of $500,000 @ 5.375%, the payback is $1,007,946 of which $507,946 is interest. As such, the interest costs exceed the loan amount, effectively doubling the cost of the home over 30 years. Amortized thirty year loans are heavily front-loaded, so most of what a borrower pays up front is interest. In the first year of a 30 year mortgage only $160/ per $1000 paid goes toward principal reduction. By year 5, a borrower has paid one-quarter of all the interest due ($129,519) even though he is only 16% of the way through the loan. By year 10 about one-third of one's payment is going toward principal, though by now the borrower has paid nearly 50% (or $247,209) of total interest due ($507,946). It takes 17.5 years to achieve parity with respect to interest and principal payments.

In instances when rates have dropped considerably, many borrowers have refinanced multiple times, some as much as 2 and 3 times in as many years, thereby compounding the problem. The reason that it is seldom in the borrower's best interest is that although they may be saving $200, $300 dollars per month, they have done nothing to reduce their principal. In most cases they have even increased their outstanding balance by financing the cost of the new mortgage into the loan.

Though you try to educate borrowers, it's usually futile. They routinely insist upon another 30-yr. fixed rate mortgage. So you accommodate them and give them what they want—after all, they're the ones making the payments and they have to be able to sleep at night and not fear that they are going to be unable to make their monthly nut.

As a result of not fully grasping the effects of compound interest over time, they err in judgment, grossly overpay, and compound their error by repeating it over and over again. Is it any wonder that relatively few borrowers carry their 30 yr. mortgages to completion?

MORTGAGE RATES REACH HIGHEST LEVEL IN 2 YEARS



The 30-year mortgage rate rose to its highest level in nearly two years, according to mortgage financing company Freddie Mac. Rates climbed 0.22 percentage points to 4.51% for a 30-year, fixed-rate loan this week, the highest it has been since July 2011. Meanwhile, the average rate for a 15-year loan hit 3.53%, up 0.14 percentage points.

Last month, a sharp spike in rates of more than half a percentage point was blamed on hints by chairman Ben Bernanke that the Fed might soon start tapering off its purchases of up to $85 billion a month in bonds and mortgage-backed securities, a stimulus program designed to keep borrowing costs low.

This time, the culprit is the economy. Strengthening employment data put the bond and mortgage markets on the defensive again. The employment report for June, was firmer than expected, and upward revisions to April and May figures showed that hiring is on stronger footing than was previously believed.

It wasn't just the job gains that drove rates higher. Hourly wages also rose 2.2% over the past 12 months, the largest annual increase in nearly two years, according to Frank Nothaft, Freddie's chief economist. The rate increases signal trouble for house hunters, however. A survey by online real estate company Trulia found that an increase in mortgage rates was the number one worry among 41% of consumers, even ahead of price increases.

Rates have risen more than a percentage point since early May, from 3.35% to 4.5%. That has added about $65 to monthly mortgage bills for every $100,000 a homeowner borrows. Combined with the 12% rise in home prices over the past 12 months, mortgage payments have gone up by about 25% for a typical homebuyer.

So far, however, the biggest impact of the rate increases on the mortgage market has been to discourage existing homeowners from refinancing their loans. Refinances decreased to 64% of all mortgage application activity this week, down from about 75% or more before rates started moving higher, according to the Mortgage Bankers Association.

Earlier this week, the Fed seemed to calm fears about an early end to its bond buying program and, as a result, there was some speculation that mortgage rates would start to drop again. Either way, bond investors seem to have grown accustomed to the reality that the Fed will opt out of its buying program. What's not known is how quickly that will happen.

THOUSANDS OF BORROWERS TO GET MORTGAGE PAYMENTS REDUCED

Starting this week, hundreds of thousands of struggling borrowers may be in for a pleasant surprise: a quick and easy way to get their mortgage payments back on track—and save considerable money. Through a new effort called the Streamlined Modification Initiative, borrowers with mortgages backed by Fannie Mae and Freddie Mac who are at least 90 days behind on payments will start receiving offers from lenders to lower their mortgage payments.

The Federal Housing Finance Agency (FHFA), which oversees Fannie and Freddie, won't say how many delinquent homeowners will receive the modifications, but the Mortgage Bankers Association reported in May that about 1.1 million borrowers are behind on their loans by three payments or more. Not all of those mortgage holders have Fannie or Freddie loans, however. The loans must be at least 12 months old, borrowers can't be more than 24 months behind on payments and their principal balances must be 80% or more of the value of their homes. The new program is scheduled to last through December 2015.

FHFA claims to have helped 2.7 million borrowers keep their homes through its other foreclosure prevention efforts, such as the Home Affordable Modification Program which was launched in March, 2009. Unlike those previous efforts, however, the Streamlined Modification Initiative won't require borrowers to file any financial paperwork. Instead, they just need to make the new payments for a trial period of three months and then the modification becomes permanent.

FHFA said the extensive paperwork and procedures that other foreclosure prevention initiatives require has been a major obstacle in getting people the help they need. Paperwork gets lost, borrowers are asked to provide documents over and over again, and evaluating a borrower's eligibility can be time consuming.

Lenders will lower a borrower's monthly payments by either extending the term of the loan—usually from 30 to 40 years—and reducing the interest rate. The new program falls short of reducing the principal on the loan, a move FHFA acting director Edward DeMarco has consistently blocked.

Nevertheless, the changes could mean big savings for anyone with a high-rate loan who was unable to refinance to the historically low rates of the past couple of years. Modifying a 30-year, $200,000 loan with a 5.5% rate to a 40-year term with a 4% rate will reduce the monthly payment to $835 from $1,135—a $300 difference.

HOME SALES DIP IN JUNE

Sales of existing homes stumbled in June after hitting a three and a half year high in May. The number of sales dipped 1.2% to an annual rate of 5.08 million in June from a downwardly revised 5.14 million in May, according to the National Association of Realtors. However, sales were up 15.2% compared to June, 2012.

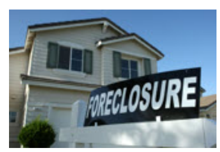
Rising mortgage rates may have taken some of the steam out of the market, according to NAR's chief economist, Lawrence Yun. "We're still dealing with a large pent-up demand," he said. "However, higher mortgage interest rates will bite into high-cost regions of California, Hawaii and the New York City metro area market."

A lack of inventory is also holding sales back. In some places, buyers simply could not find suitable homes. In June there was a 5.2-month supply at the current sales pace, up from 5.0 months in May. That's 7.6 percent below a year ago, when there was a 6.4-month supply. "Inventory conditions will continue to broadly favor sellers and contribute to above-normal price growth," said Yun.

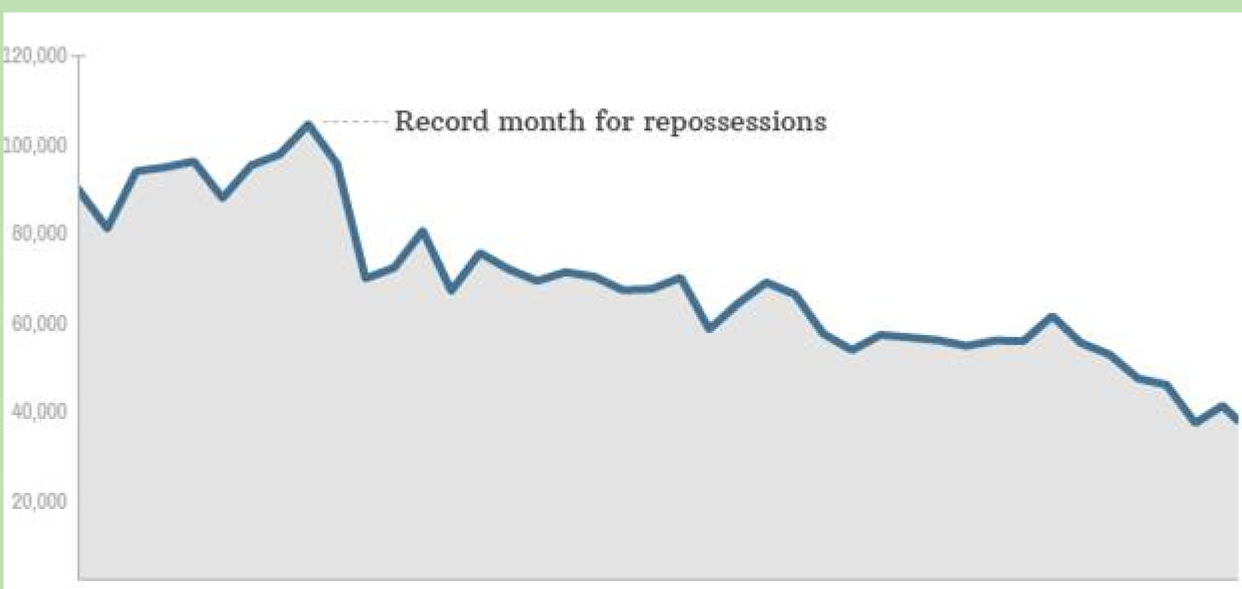
Indeed, the median home price jumped 13.5% from June 2012, to $214,200, posting the 16th consecutive month of gains. The ongoing drop in foreclosures and short sales as the foreclosure crisis has eased has helped contribute to home price gains. Distressed sales accounted for just 15% of all existing home sales in June, compared with 18% a month earlier. That's the lowest market share for distressed properties NAR has reported since it began tracking them in October 2008.

Distressed properties generally sell at substantial discounts to conventional homes, so having fewer in the mix helps boosts the median home price.

FORECLOSURES FALL TO PRE-HOUSING BUST LEVELS



In June, foreclosure filings dropped to their lowest level since before the housing bust. The long national foreclosure nightmare is nearing its end, with foreclosure filings hitting their lowest level since before the housing bust. Total foreclosure filings, including notices of default, scheduled auctions and bank repossessions, dropped to 127,790 in June, down 35% over the past 12 months, according to RealtyTrac. Overall, filings have hit their lowest monthly level since December 2006.



The number of foreclosure filings have plunged so fast—down 14% since May—that the housing market could be back to pre-mortgage meltdown levels before the end of the year, according to Daren Blomquist, a vice president at RealtyTrac.

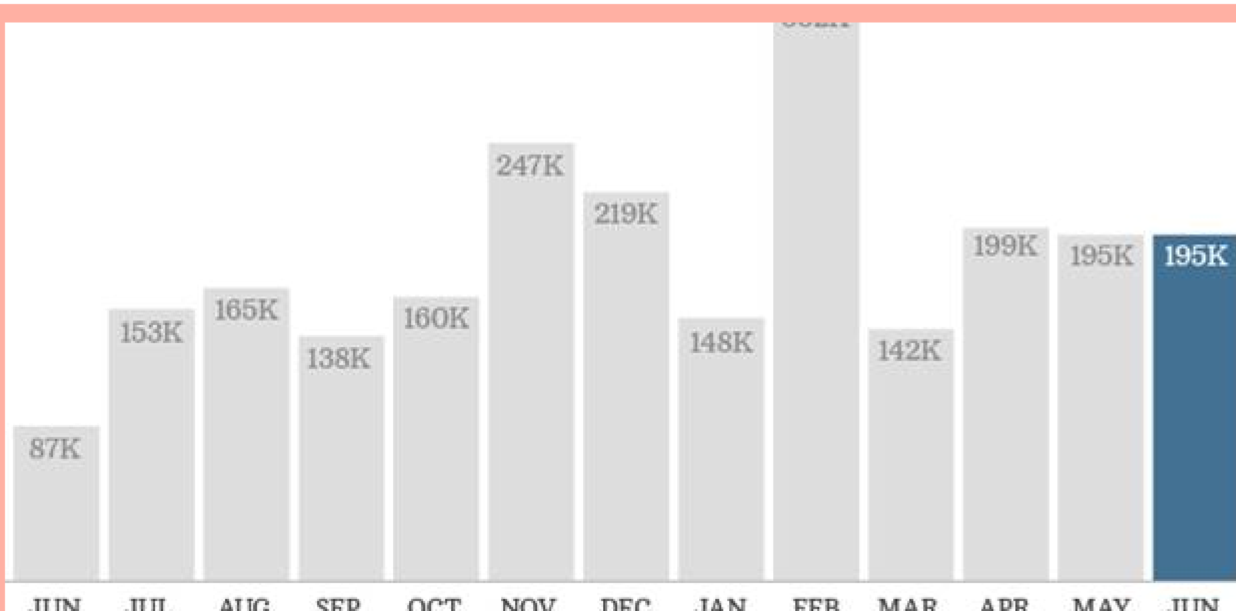
Halfway through 2013 it's becoming increasingly evident that foreclosures are no longer a problem nationally, although they continue to be a thorn in the side of several state and local markets. The five states with the highest percentage of foreclosure filings last month were Florida, Nevada, Illinois, Ohio, and Georgia. In Florida, Miami, Orlando, Jacksonville, Ocala, and Tampa held the top five spots for filings among the nation's metro areas.

While initial filings for foreclosures dropped by 45% year-over-year to a seven and a half year low, the number of homes that were further along in the process and were repossessed have not fallen as quickly.   "[At the last stage of foreclosure] they trail other filings," said Blomquist. Bank repossessions are still trending at a rate of more than 420,000 a year, compared with a historical average of 250,000, said Blomquist.

Many of these repossessions are occurring in states where courts supervise the foreclosure process and they are just now working through a backlog of foreclosures that built up after the so-called robo-signing scandal. "The increases in judicial foreclosure auctions demonstrate that these delayed foreclosure cases are now being moved more quickly through to completion," said Blomquist.   "Given the rising home prices in most of these markets, it is an opportune time for lenders to dispose of these distressed properties."

And as home values rise nationwide, more homeowners are able to keep their homes or sell them before they lose them to foreclosure.

HIRING BEATS EXPECTATIONS



The job market made solid improvement last month, with strong hiring that beat expectations. The economy added 195,000 new jobs in June, the same as the revised pace in May. Meanwhile, the unemployment rate remained unchanged at 7.6%.

Economists had predicted a gain of 155,000 jobs, and a drop in unemployment to 7.5%. Hiring during spring was also stronger than previously thought. The number of jobs created in April was revised up by 50,000 positions, while the May report was revised higher by 20,000 jobs.

The biggest gains were in leisure and hospitality (up 75,000), professional and business services (up 53,000), and retail (up 37,000). Construction and manufacturing were little changed.

The federal government shed 5,000 positions, continuing a trend brought on by the budget cuts that have eliminated 65,000 jobs in the last 12 months

On average, the economy has created roughly 182,000 jobs a month over the last year. That's not bad, but it's not great either. Economists say that level of job growth barely keeps pace with the rising population, and is a far cry from the 250,000 jobs a month created during the boom times of the mid 1990s.

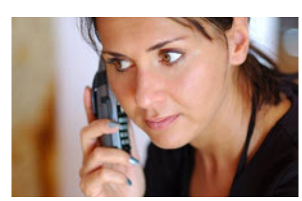
I LOVE REFERRALS BUT....

When you get a referral you try your best to **a)** honor the referring party by doing the best job possible for their referral so that the favor that they have done for you and their (friend, relative, colleague or business associate) reflects favorably upon them and **b)** to capture the business and engender more good will.   Sometimes, however, things don't always work out so well. I hereby offer the following real world examples.

In the first instance, I received a call from someone named Tom who wanted to refinance his primary residence.   I had been referred to him by a former client, Richard. I explained that I could take a loan application over the phone in about 20 or 30 minutes or I could send him the loan application and he could do it online. Perhaps, because he was at work when he called, or because of his information technology background, he opted for the latter. In any event, I didn't hear from Tom for about a week. When I did, he had sent me an email with a nearly complete loan application explaining that "collecting all this data was killing him" and "couldn't we get started based on the information supplied so far" [the application]?" I told him, "not a problem" and that it was unfortunate that he had spent so much time researching his liabilities and account numbers because had he allowed me to take his application over the phone all of his liabilities could have been populated from his credit report in about ten seconds.

He had two concerns: 1) he wanted to refinance from out his existing conventional loan into a VA loan 2) he wanted to complete his refinance by the end of the month and here it was already July 2nd. I explained that as it was already July 2nd, completing a VA refinance in less than 30 days would be well-nigh impossible. The earliest I could get to him would be by July 5th because I was swamped with refinances and purchase money loans and my schedule was booked solid on July 3rd with meetings so the only way for me to "catch up" and accommodate him was to work over the 4th of July.   As promised, on July 4th I dutifully began compiling a submission package consisting of his Loan Application, Fees Worksheet (FW) and a Good Faith Estimate (GFE), but I noticed that there were two or three pieces of missing information on the application so I sent him an email detailing what was missing. He emailed me back saying that he would review the documents the next day, but he never answered the questions I had posed. And that was it. I never heard from him, again. Four subsequent phone calls and an equal number of emails yielded nothing.

On the 2nd, I had had an appointment with a man named Geoffrey who resided in the Philippines but who had a condominium in La Jolla where his lady friend currently resided. His sister and brother-in-law had used their credit to buy the property on his behalf. They were both on the loan and on title. Geoffrey] simply made the mortgage payments using his Bank of America Visa card. After 4 years of this, the sister and brother-in-law wanted off the loan and off title. The brother-in-law had mentioned this to me a couple of years earlier, but I had no lender that would do a loan for a Foreign National. When we were recently approved with a lender that did this kind of loan, I contacted the brother-in-law to see if Geoffrey was still interested. By coincidence, not only was Geoffrey interested but he also happened to be in town. I explained that though busy as I was I would make time for him because he lived so far away and because his brother-in-law and sister were very good clients. We arranged to meet the very next day, which we did. I explained that given my time constraints I would have to work over the 4th to put together a package (loan app, FW and GFE).   I mentioned that among the initial documentation I would need would be a copy of his passport and visa. He agreed to provide them both. I called him two more times before he left the following Sunday and emailed him numerous times since—I have yet to hear back from him let alone see a copy of his passport and visa.



The thing that makes this all so frustrating is that late that afternoon [July 3rd], I received a call from a woman who had been referred to me by a realtor whom I had concluded a deal for a month or two earlier. She and her husband wanted to purchase a home using a reverse mortgage. She was the personification of charm, one of those women for whom you would do most anything for even though you had just met her. Regretfully, I told her that I was currently so backlogged that I didn't have the requisite time to work on her loan file and had to decline her business.

So, I ended up turning down a good loan and thousands of dollars of business because I felt a responsibility to the two prior parties whom I would ultimately discover felt absolutely no responsibility to me, not even enough to return phone calls or an email. You would think (even if the parties changed their minds for whatever reason) that common courtesy dictates returning a phone call or email when you have labored conscientiously on their behalf at no charge, but all too often that is not the way it works out. I sometimes forget what an associate's mother once said:

> "*If you expect others to treat you as well as you treat them you will be*
> *consistently disappointed, but that doesn't mean you should ever stop*
> *treating people with kindness and thoughtfulness*."

Nevertheless, it is frustrating when one is diligent, reasonable and considerate and does not receive like in return. Still, one must exemplify diligence and thoughtfulness, and hope that others will follow by example, professionally and personally, all the while realizing that such is not likely to be the case. A mortgage broker's life is by no means "all peaches and cream."

RATE SUMMARY

RATES STABILIZED THIS PAST MONTH ↔

*Conforming loan rates are an 1/8th higher or lower depending on the program ↕
*Jumbos are varying by an 1/8th up or down depending on the program ↕
*Governments are up 1/8th to a 1/4th 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

A clear conscience is a sign of a bad memory.

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 @ 3.00% & Conf. 5/1 Interest Only ARM @ 3.250%
- Conforming 15 yr. fixed @ 3.125%
- Jumbo 5/1 ARM @ 2.875%
- FHA   Conforming 15 yr. fixed @ 3.000%
- FHA/ High Balance 30 yr. fixed @ 3.75%
- DU REFI PLUS 30 yr. fixed conforming @4.125%