Newsletter Vol. 11 Issue 5

May 2014

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

Job gains on Target (Week ending Apr. 4, 2014)

This week, all eyes were on Friday's key monthly Employment report. Adding to the focus, Fed Chair Janet Yellen emphasized on Monday that future Fed policy will primarily be determined by the performance of the labor market. The jobs data was right in line with expectations, and mortgage rates ended the week a little lower.

After a rough start to the year, partly due to unusually severe winter weather, job growth has returned to the levels expected by most economists and the Fed. The economy added 192K jobs in March, and upward revisions to the data from the prior two months added another 37K jobs. Anticipating even stronger data, which would be more inflationary, investors pushed mortgage rates a little higher earlier in the week. After the report was released, mortgage rates completely reversed those increases.

The biggest surprise in the jobs data may have been the surge in the labor force. The Unemployment Rate remained unchanged at 6.7%, above the consensus of 6.6%, but the flat reading was due to an unexpectedly large number of people entering the labor force. The Unemployment Rate measures the percentage of people who want a job but are unable to find one. Growth in the labor force is a sign of an improving labor market.

Shift from Stocks to Bonds (Week ending Apr. 11, 2014)

The stock market was the biggest influence on mortgage rates this week, as investors shifted assets from stocks to bonds. The Fed Minutes also were favorable for mortgage rates, and rates ended the week lower, near the lowest levels of the year.

Beginning with the Jobs report last week, investors became more bearish about the stock market, and investors grew more concerned this week that upcoming earnings releases will be weak. As a result, investors have reduced their positions in stocks, causing the Dow stock index to fall over 500 points from last week's record high. Some of the proceeds from the stock sales were used to purchase bonds, including mortgage-backed securities (MBS). MBS prices increased from the added demand, leading to an improvement in mortgage rates.

Wednesday's release of the FOMC Minutes from the March 19 Fed meeting also helped mortgage rates. In the Minutes, some Fed officials expressed concern that inflation would remain below the Fed's target level of 2.0% for years. While this may be bad from the Fed's point of view, low inflation is positive for mortgage rates.

Reversal for Stocks and Bonds (Week ending Apr. 18, 2014)

Last week, stocks posted large losses and mortgage rates improved, as investors grew more concerned about the strength of the economy. The reverse took place this week. Better economic data and comments from Fed Chair Yellen boosted stocks and caused mortgage rates to end the week higher.

The economic data released this week was generally better than expected. The biggest report, March Retail Sales, rose 1.1% from February, which was the largest monthly increase since September 2012. Industrial Production, another important indicator of economic activity, showed a comparable increase. Weekly Jobless Claims held steady near the lowest levels since 2007. The Philly Fed manufacturing index jumped to the highest level since July of last year. Stronger growth is good for the economy, but it increases expectations for future inflation, which is negative for mortgage rates.

Dovish comments from Fed Chair Yellen on Wednesday suggested that the Fed is not in a rush to raise the fed funds rate. Yellen explained that the timing of rate hikes will depend on when the economy meets the Fed's goals for the labor market and inflation. According to Yellen, a great deal of slack remains in the labor market, and this calls for accommodative monetary policy. Because loose policy boosts economic growth, Yellen's comments were viewed as positive for the stock market, and investors shifted assets from bonds to stocks.

Big Week Ahead (Week ending Apr. 25, 2014)

The last two weeks have been relatively light ones for economic news. Mortgage rates moved a little higher late last week ahead of Easter weekend, and they reversed that increase during this week. Headlines from Ukraine added a short burst of volatility but had little lasting impact.

Overall, the economic data released this month has been better than expected. After slowing due to unusually severe winter weather, most sectors of the economy appear to be picking up. The economy added jobs at a healthy pace. Retail Sales and manufacturing posted solid gains. This week, Consumer Sentiment jumped to the highest level since July of last year.

Despite the good results this month, however, investors require more evidence that the improvement is sustainable before they will raise their long-term outlook for economic growth. The steady economic outlook over the last several months has helped keep mortgage rates in a fairly narrow range.

One sector which has lagged in its pace of improvement is housing. March Existing Home Sales were roughly the same level as February, which was very close to the consensus forecast. A tight supply of inventory in many regions was one factor holding back sales. Offering potential for future activity, the total inventory of existing homes available for sale rose 5% in March. March New Home Sales showed a sharp drop from February, but this data is extremely volatile month to month.

THE STATE OF THE UNION

This is the third of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our “State of the Union”.

IMMIGRATION REFORM

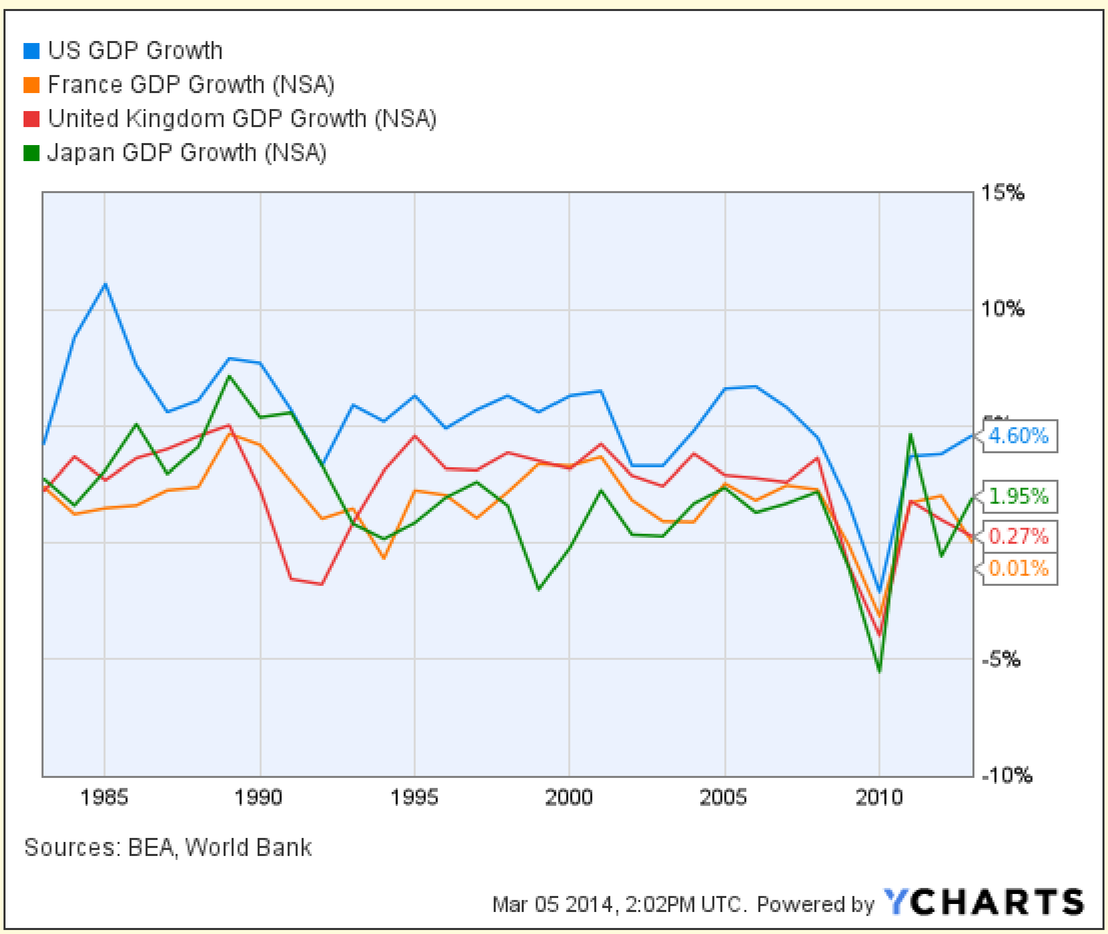
Another of our glaring social and economic problems that needs to be addressed is immigration reform. Without immigration, the U.S. economy is sclerotic. The primary benefit for immigration is that it boosts economic growth (and makes inequality more bearable). As the 2014 midterm elections draw nearer, the issue of immigration reform will be used as a wedge to pressure vulnerable Republicans into either angering their base and supporting reform, or alienating key demographics.

The politics of immigration are complicated, as are the economics. Researchers are split over whether immigration brings down the wages of low-skilled workers in the U.S. But with respect to other questions, like whether immigration promotes overall economic growth, the data is clear. It overwhelmingly does.

One way to highlight this is to compare economic growth over the past 30 years in the U.S. to other wealthy countries like France, the U.K., and Japan. A stylized fact often thrown about is that the United States, over the 80 or so years in which we've measured this sort of thing, has consistently grown faster than other countries due to its more enthusiastic adherence to classic capitalistic principals.

The graph below shows nominal yearly GDP growth from 1982 to 2012. In the first graph, the U.S. consistently beats out its wealthy peers. Over this period, nominal GDP growth in the U.S. has averaged 5.4%, compared with 1.8% in France, 2.4% in the U.K., and 1.9% in Japan.

But one fact that often gets overlooked is that the U.S. population has been and continues to grow at a faster rate than its industrialized peers. Take a look now at GDP growth in the second graph over that same period, this time on a per capita basis:

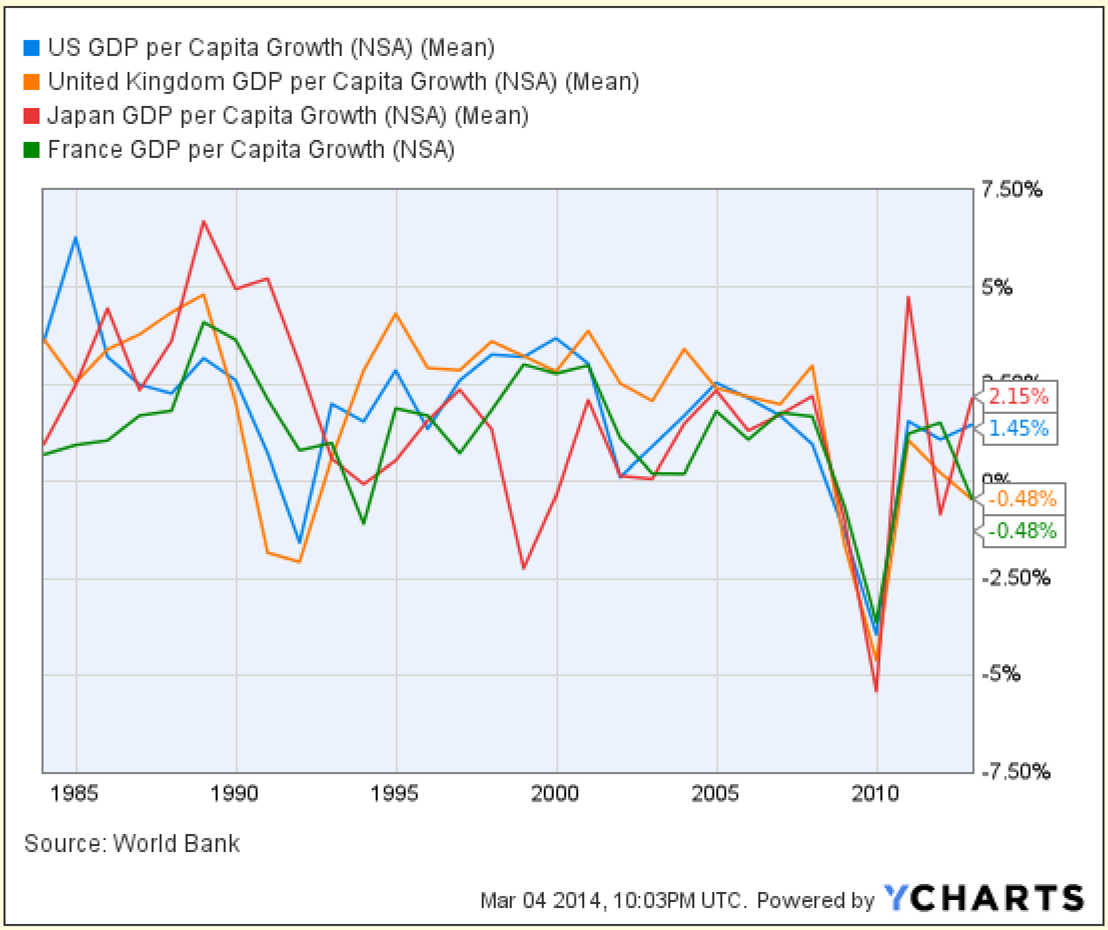


Here, the competition is much closer. (See graph below). In fact, the U.S. doesn't even win. On a per capita basis, these countries grow at:

- 2.0% in the U.K.
- 1.8% in the U.S.
- 1.6% in Japan
- and 1.2% in France.

Take away America's faster population growth, and there's a lot less of a difference between its economic growth compared to its wealthy nation peers. This puts into perspective, for instance, the current debate over health care reform in the U.S. Britain has socialized medicine, a fact that pushes the share of yearly GDP spent by the government close to 50%, yet it has managed to grow its economy faster than the U.S. on a per-capita basis, for which government spending represents a smaller share of GDP.

So, population growth is good for economic growth. This seems intuitive—more people mean more economic activity. And in the U.S., population growth is increasingly reliant on immigration. Sure, birth rates are higher in the U.S. than in other wealthy countries, but they are on the decline, and the Census bureau estimates that immigration will be the main driver of population growth within 30 years.



Thomas Piketty, the French economist responsible for compiling much of the data driving today's debate over growing wealth and income inequality, raises this issue in his forthcoming book, *Capital in the 21st Century.* He points out that immigration is also the primary reason the U.S. has, for much of its history, avoided the large and unequal concentrations of private wealth that developed in Europe. He writes:

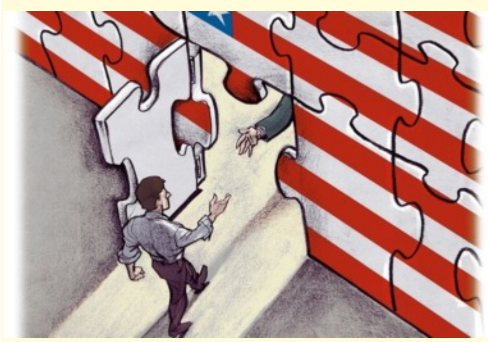
[Immigration] was the great contribution of the United States to global redistribution: the country grew from a population of barely 3 million at the time of the Revolutionary War to more than 300 million, largely thanks to successive waves of immigration. That is why the United States is still a long way from becoming the new Old Europe ... immigration is the mortar that holds the United States together, the stabilizing force that makes increasingly large inequalities of labor income politically and socially bearable....for a fair proportion of Americans in the bottom 50 percent of income, these inequalities are of secondary importance for the very simple reason that they were born in a less wealthy country and see themselves as being on an upward trajectory.

In other words, not only does immigration boost growth, it also combats the kind of concentration of wealth that has fueled political unrest across the developed world. Population growth doesn't make the rich any poorer, but it does diminish the power of wealth. A million dollars is going to be a much more valuable thing to have in a country in which the population and economy are shrinking than in a country where the population and economy are growing.

Immigration is not only necessary and beneficial; it's just plain smart. Today we educate the world's top talent in our colleges and then we send many of the best and the brightest educated foreigners packing. How stupid is that?

We are living in a world with at least five competing market platforms: North America, the European Union, South America, Greater China and East Asia. We have already derived great economic benefit through the North American Free Trade Agreement, or NAFTA. And, if we were thinking strategically, one of our top foreign policy priorities would be to further integrate North America.

Consider the following: We sell twice as many exports to Mexico as to China, and we export more than twice as much to Mexico and Canada as to the European Union and three times as much as we do to East Asia. How many Americans know that out of every $1 of Mexican exports to the U.S., 40 cents comes from materials and parts made in the U.S.? By comparison, out of every $1 of Chinese exports to the world, just 4 cents comes from products made in the U.S., according the National Bureau of Economic Research. And, with the discovery of natural gas in America leading to more manufacturing returning to this country, and the prospect of pending energy reform in Mexico, there is an opportunity to create the lowest-cost, clean-energy manufacturing platform in the world, with mutually beneficial supply chains criss-crossing the continent. Americans and their Congressional representatives need to stop being xenophobic and wise up to what's in the nation's best interests.



We need to stop focusing on border fencing and more on the opportunity for the high- and low-skilled immigrants that need to thrive and give those already here illegally a legitimate pathway to citizenship. Many House Republicans are resistant to reform for purely selfish reasons—like being re-elected. They represent gerrymandered districts comprised of older white people who fear their dominance and power is being eroded by the changing demographics in America. They bolster their prejudices against people of color with anecdotal evidence while remaining blissfully and adamantly ignorant of the factual economic benefits.

Our immigration laws contribute to the "brain drain" that is taking place in America. Currently, the brightest foreign students come to universities and colleges, earn degrees in high-demand disciplines and then are recruited to work in Canada, Britain, India and Korea because they can't get an American green card. We should be embracing these people as a source of the heterogeneity and drive that generate new ideas. The U.S. attracts a lot of talent, but it makes it very hard to stay and contribute. It remains the world's cradle of innovation because it has the essential components that a successful incubator for new things needs: an education system that values creativity, the availability of start-up capital, patent laws that protect intellectual property, an infrastructure that gets things shipped and marketed and, perhaps most important, a culture that preaches opportunity and celebrates the risk-taker.

Yet, there are signs that our innovative dynamism is diminishing. The pace of new business creation, on a per-capita basis, has been in a slow but steady decline since the mid-1980s which suggests that other essentials of a thriving innovative economy have been neglected. The decline of our education system is exaggerated but real, especially in the scientific and technical fields. And then there is the erosion of our infrastructure—physical and intellectual, the dwindling of America's publicly financed research, the budgets of the National Institutes of Health, the National Science Foundation and other sources of investment in the long-term, basic science that undergirds practical innovation have been slowly eroding—even before the ham-handed budget sequester and the idiotic government shutdown.

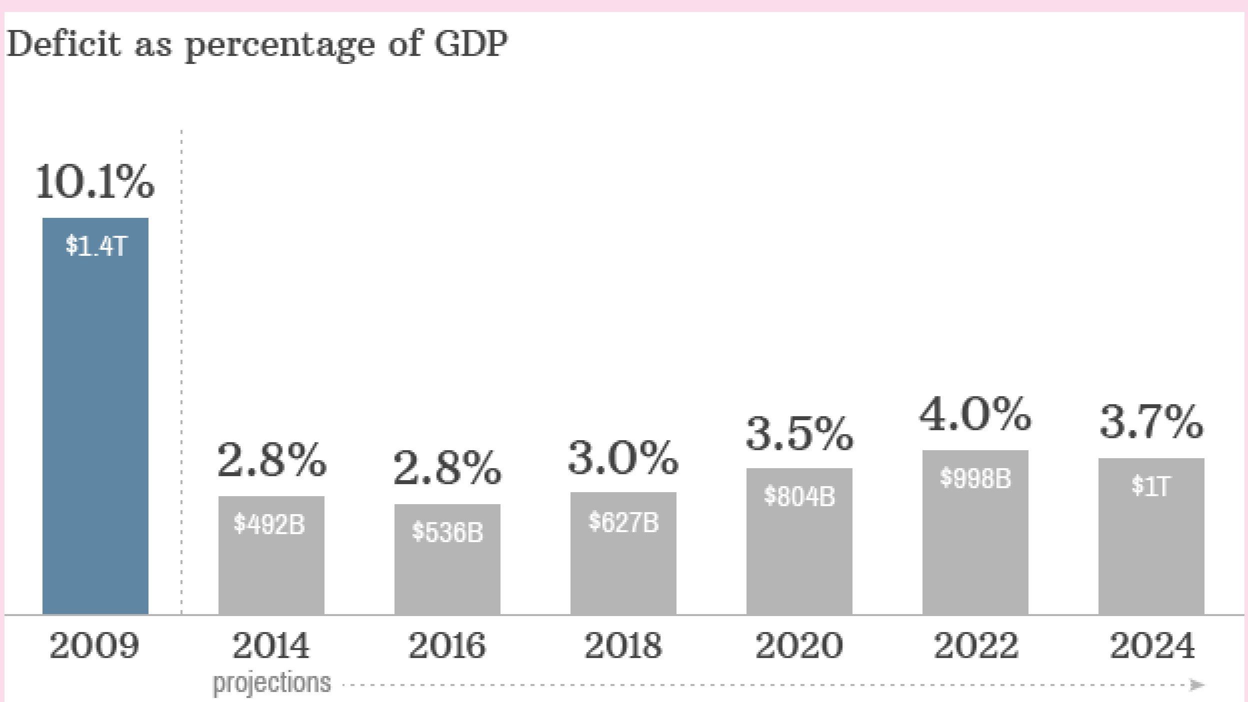
This is more maddening than the other most obvious problem, the neglect of physical infrastructure, because it would be so much easier to solve. Rebuilding bridges, ports, etc. takes a long time. Increasing research budgets is an 'it's only money' issue. The sums are small on the national budgetary scale but large in their implications.

We should be investing in a major expansion of transportation corridors to facilitate truck, intermodal (including shipping and high-speed rail) and human traffic in a much more efficient and legal fashion. We're doing just the opposite—starting with a fear-fence and not thinking strategically at all. Instead of lowering the barriers to create a modern border and a more competitive and secure continent, the Republicans propose to deal with illegal migration by doubling our border patrol to over 40,000, which is 10 times more than it was before NAFTA, at an additional cost of more than $40 billion.

By focusing exclusively on fences, we will not stop undocumented immigration—because 40 percent of illegal residents are people who overstayed their visas—but we will fail to invest in the infrastructure that represents a critical foundation for our future. More important, we are telling the Mexicans and the Canadians that we view them as threats, not as partners.

The whole approach is shortsighted, does not play to our strengths, increases the deficit and ignores where the world is going and how America can best compete and lead within it.

DEFICIT NOW ACCEPTED TO BE EVEN LOWER



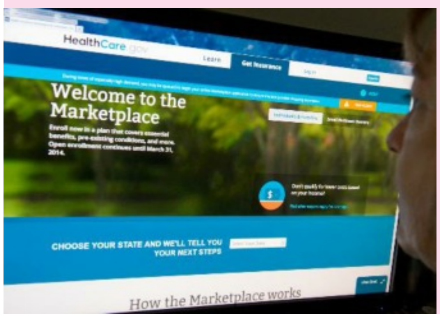
For the fifth consecutive year, the U.S. annual deficit is projected to fall as a share of the economy, and to do so more than previously forecast. The Congressional Budget Office (CBO) projected Monday that the 2014 shortfall will decline to 2.8% of GDP -- or $492 billion. That's about $23 billion below what the CBO forecast just a few months ago. And it's well below the 4.1%--or $680 billion—recorded last year.

The drop is due to lower than expected interest payments and other spending, including defense. But the downward trajectory won't last. As it has noted many times in the past, the CBO said it expects annual deficits to start rising again in 2016 if current laws don't change—from a decade-low of 2.6% of GDP in 2015 to roughly 4% by 2022. Ten years from now, the CBO projects the country's accumulated public debt will reach 78% of GDP, up from 72% currently.

That's "mainly because of the aging population, rising health care costs, an expansion of federal subsidies for health insurance and growing interest payments on federal debt," the CBO noted. The impact of health costs in the near term, however, has not been as onerous as expected. One reason for CBO's lowered 2014 deficit estimate: A smaller than expected bill for health insurance subsidies under Obamacare.

In a separate report Monday, the agency estimated that insurance coverage provisions overall will cost about $5 billion less this year and $104 billion less over the next decade than forecast a few months ago. It also has lowered the estimated cost of premiums for the second lowest cost plan on the exchanges known as the "silver plan."

The CBO now expects the annual average cost of such a plan, which is used to determine subsidies, will be about $3,800 this year. By 2016, it expects silver plan premiums to cost $4,400, or 15% less than the agency had forecast in November 2009, before the law was enacted.



In terms of enrollment, the CBO still expects an average of 6 million people to have insurance this year through the exchanges. The agency said its estimate can't be directly compared to the 7.5 million signups reported by the Obama administration since the CBO number assumes, among other things, that some of those people will only be covered for part of the year.

For example, some people will drop Obamacare coverage because they become eligible for employment-based insurance.

HOME PRICES COOL IN FEBRUARY

Home prices cooled off in February, according to the S&P/Case-Shiller home price index. Prices were relatively unchanged compared to January. Compared to a year ago, prices rose 12.9%. That's down from an annual gain of 13.2% in January.

Of the 20 major cities covered by Case-Shiller, San Diego recorded the highest month-over-month gain, up 1%. Home prices were also up in Portland, Oregon; Seattle; San Francisco; Los Angeles and Washington. The biggest loser was Cleveland, where prices dropped 1.6%. Las Vegas had the biggest 12-month increase. Prices there were up 23.1% in February compared with a year earlier. San Francisco and San Diego also rang up big gains.

But overall, the housing market isn't doing as much as it has been to drive the economic recovery. Prices are just one of the real estate market indicators that have been flagging lately. Sales of both new and existing homes are flat to down. The recovery in housing starts is faltering. Home prices nationally have not made it back to 2005 [levels]. Mortgage interest rates, which jumped last May, are blamed by some analysts for the weakness.

Others cite difficulties in qualifying for loans and concerns about consumer confidence. The result is less demand and fewer homes being built.

MORTY'S MAILBAG

Q. I see from your newsletter that you do Delayed Financing. I infer from the name that this is something that occurs later on in a real estate transaction, but that's about it. Please explain what this is, if you would.
A. Gladly. Probably the easiest way to explain the various aspects of Delayed Financing is in an FAQ format.

Q. What is Delayed Financing?
A. Essentially this can occur when a borrower purchases a property with all cash and they want to recoup their cash outlay of funds immediately after closing.

Q. When is Delayed Financing permitted?
A. Delayed Financing is only available during the first 6 months after the all cash purchase closes. The 6 month timeframe is measured from the date on which the property was purchased to the disbursement date of the new mortgage. Standard cash out guidelines apply after 6 months.

Q. Why is Delayed Financing helpful?
A. Most sellers prefer the certainty of buyers with all cash offers as opposed to those buyers that require financing: "a bird in the hand is worth two in the bush." Having secured the property, the all cash buyer now may wish to recoup their initial cash outlay, for example, to re-balance their investment portfolio. This is particularly helpful to borrowers who own more than 4 financed properties where traditional cash out is not allowed. In short, Delayed Financing enables investors to purchase a home with all cash and immediately replenish their funds.

Q. How is this loan priced?
A. Delayed Financing is priced like a conventional cash out loan. There is, however, an adjustment for borrowers owning 5-10 financed properties.

Q. Does every lender offer it?
A. No, I have only 5 lenders that offer this product.

Q. Anything else I should know?
A. Delayed Financing allows a home to be purchased with all cash or a mixture of cash and personal loans or HELOCs as long as the loans or HELOCs are paid back first. <u>Note</u>: The Purchase must have been ARMS LENGTH, if purchase was non-arms length, it is not eligible under delayed financing criteria. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

High Balance cash out maximums are in the LTV range of 60 to 65%, depending on whether the loan is a fixed or an adjustable rate product. They both require 720 minimum FICO scores. Delayed financing is not available for high balance loan amounts on second home and non-owner occupied properties.

There are additional requirements for investor and second home borrowers with five to ten financed properties.

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 a "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is <u>morty@mortgagestraightTalk.com</u>

RATE SUMMARY

As the stock market rose this month, mortgage rates worsened slightly.

Mortgage rates crept up an 1/8th, this past month. ↑
Conforming programs—an 1/8th higher ↑
Jumbos—No Change =
Governments—an 1/8th worse ↑

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO: www.mortgagestraighttalk.com The rate sheets are updated every Friday.

BEST BETS THIS MONTH

- Conforming 30-yr. fixed @ 4.00%
- Conforming 15-yr. fixed @ 3.00%
- Jumbo 5/1 ARM @ 2.8750%
- FHA/VA 30-yr. fixed @ 3.500% 3.625%
- FHA/VA Conforming 15-yr. Fixed @ 2.750% / 2.875%
- FHA High Balance Conforming 30-yr. fixed @ 3.625%
- HOMEPATH 30-yr. fixed @ 4.125%
- DU REFI PLUS or OPEN ACCESS 30-yr. fixed @ 4.125%

I ALSO DO:

- **COMMERCIAL LOANS (more than 4 units)**
- **"HARD MONEY" LOANS**
- **REVERSE MORTGAGES**
- **FOREIGN NATIONALS**
- **DELAYED FINANCING**
- **STATED INCOME LOANS**
- **MANUFACTURED HOMES**
- **ASSET DEPLETION LOANS**

MORTGAGE MIRTH