Newsletter Vol. 12 Issue 10

October 2015

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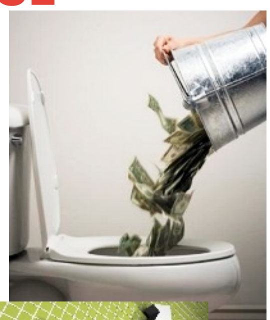
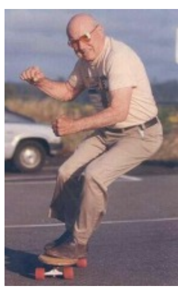
IN THIS MONTH'S ISSUE

* SPECIAL(S) OF THE MONTH
* MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS
* 30 YR. FIXED RATE MORTGAGE IS A WASTE OF MONEY
* GOOD NEWS: U.S. ECONOMY GREW FASTER THAN EXPECTED
* RATE SUMMARY
* MORTY'S MAILBAG
* MORTGAGE MIRTH





MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Mixed Employment Data (Week Ending 9-4-2015)

Friday's Employment report came in close to the forecasts overall. A small shortfall in job gains was offset by stronger than expected wage gains and a decline in the unemployment rate.

Against a consensus forecast of 220K, the economy added 173K jobs in August, but upward revisions to prior months added another 44K. The unemployment rate declined from 5.3% to 5.1%, the lowest level since April 2008. It was 6.1% a year ago. Average hourly earnings, a proxy for wage growth, were 2.2% higher than a year ago.

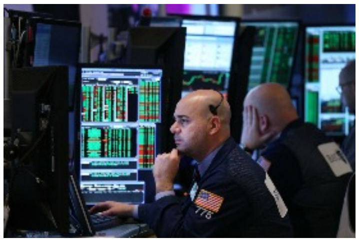
BEST BUYS THIS MONTH

- Conforming 5/1 ARM @ 2.375%
- High Balance Conforming 30 yr. Fixed @ 3.625%
- Jumbo 30 yr. Fixed @ 3.875%
- Jumbo 5/1 ARM @ 2.750%
- FHA 30 yr. High Balance Conforming Fixed @ 3.250%
- VA 30 yr. High Balance Conforming Fixed @ 3.250%

Conforming to $417,000 < High Balance Conforming $417,001 to $562,350 < Jumbo

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



Investors had been looking to the Employment report to provide more clarity on whether the Fed will begin to raise the federal funds rate at the September 17 meeting. The on target data provided little guidance, however, and investors remain divided. One reason is that recent comments from Fed officials have spanned the spectrum from fully supportive to strongly against. There is broad agreement that the performance of the labor market is on track to match the Fed's conditions for a rate hike. Inflation, however, is much more debatable. Core inflation has held far below the Fed's target level of 2.0%, and potentially slower economic growth around the world has reduced expectations for future inflation.

Waiting for the Fed (Week Ending 9-11-2015)

Investors remain divided about whether the Fed will raise the federal funds rate on Thursday. Fed officials have stated that policy decisions will be determined by the performance of the economy, but recent comments reveal mixed views on whether the conditions for a rate hike have been met. The labor market has continued to perform well, but the inflation rate remains well below the Fed's target level of 2.0%. The uncertainty about the outcome makes it likely that Thursday's Fed statement and press conference will cause a large market reaction.

Following the decline in the unemployment rate to a multi-year low seen last week, additional labor market data released on Wednesday contained more good news for the economy. The JOLTS report indicated that job openings in July jumped to the highest level since the data collection began in 2000.

In addition, the "quit" rate remained high. Economists generally view a willingness for employees to voluntarily leave their jobs as a sign that they have confidence in their prospects for finding a new job. The number of hires declined in July, possibly indicating that employers need to raise wages to attract workers.

No Rate Hike (Week Ending 9-18-2015)

Heading into Thursday's Fed announcement, investors were split about whether the Fed would raise the federal funds rate for the first time since 2006. The Fed chose to make no change. The Fed's Statement cited concerns that weaker global economic growth could exert downward pressure on U.S. inflation rates. Fed officials lowered their forecasts for inflation for the next several years.

Mortgage rates fell following the comments from the Fed. They fell because expected future inflation levels are a key component in setting mortgage rates. The Fed's guidance forecasts made investors willing to accept lower rates.

In addition, investors were comforted by another inflation reading which was consistent with the Fed's guidance. The consumer price index data (CPI) released this week revealed that core CPI inflation, which excludes volatile food and energy prices, was again just 1.8% higher than a year ago. Inflation has held steady at low levels all year.

Yellen Clarifies Policy (Week Ending 9-25-2015)

On Thursday night, Fed Chair Yellen gave her first speech since the Fed meeting on September 17. She clarified many of the issues which had created uncertainty for investors. She said that she expects that a federal funds rate hike will be appropriate before the end of the year. She also reassured investors that the U.S. economy is strong enough to handle a rate hike. She noted that the impact of global economic weakness on the U.S. was not likely to be significant enough to have much influence on future Fed policy. After her speech, global stock markets rallied and mortgage rates moved higher.

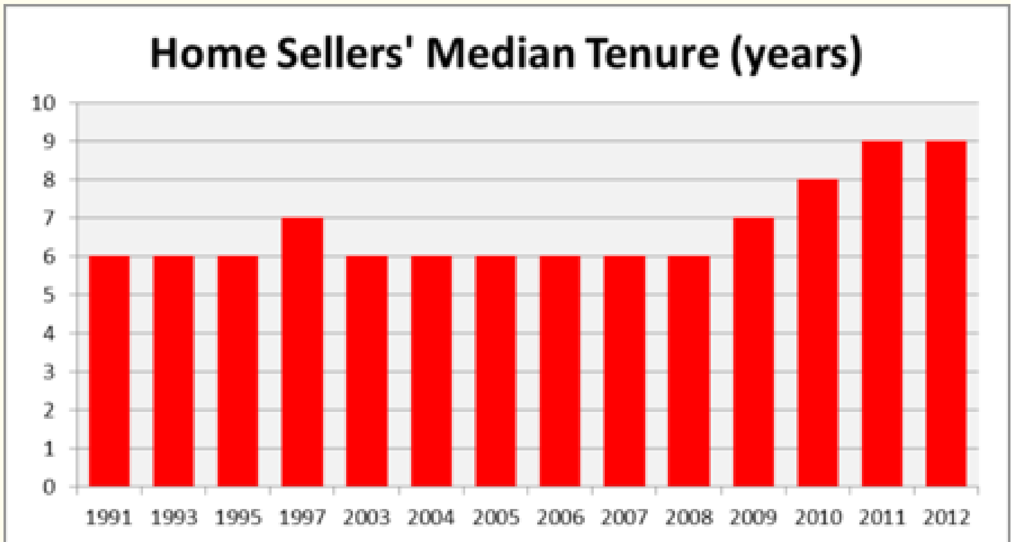
The housing data released over the past week was encouraging. August new home sales increased 6% from July to the highest level in over seven years. New home sales were 22% higher than a year ago. While August's existing home sales decreased a little from July, they remained near multi-year highs.

THE 30 YEAR FIXED RATE MORTGAGE IS A WASTE OF MONEY

It's dismaying watching people pay more in mortgage interest than they have to. Yet a large number of them do because bankers & loan officers find it easier to sell mortgage products with longer terms because of the larger yield spreads. In America, the longest conforming standard is 30 years.

HERE ARE THE FACTS

According to the National Association of Realtors (NAR) and California Association of Realtors (CAR) the average American homeowner moves once every 7.2 years. For Californians, it's a bit shorter at 6 years 4 months. The Federal Home Loan Mortgage Corporation (FHLMC) also known as Freddie Mac reports that refinances among American homeowners fell from 5.8 years in 2012 to 4.7 years in the first quarter of 2015. The average Californian accelerates this statistic by a few more months, coming in at 3 years and 9 months.



Source: NAR Survey of Home Buyers and Sellers

WANT PROOF?

If you don't believe me, ask yourself and your friends this question: Have you ever paid off a 30 yr. fixed rate mortgage? My guess is that you won't find a single person affirming that they have. Some may say, "Yes." But, that is because they misunderstood the question: When you ask how, they explain that they did this when they sold their home. Strictly speaking, the sale of the property retired the outstanding mortgage debt, not their making payments.

SO WHAT?

Of all of the people who took out 30 yr. fixed rate mortgages either as the result of a purchase or a refinance, only 3% kept them to completion. That means that 97 out of 100 people with fixed rate mortgages either moved or refinanced before they paid off their mortgage. Yet, the interest rates for a 30 yr. mortgage are approximately 1 to 1.5% higher than for a 5/1 or 7/1 ARM. So, that means that most borrowers are paying a premium of 1 to 1 ½ percent more for something that they will never use. How dumb is that?

BE A LITTLE CYNICAL

The next time someone is promoting a 30-year fixed ask them: 1) What was your major in college or grad school? 2) How many times have you refinanced before? 3) Ask them what is the current yield on 10-year treasury note? 4) Where was the 10-year treasury yield 10, 20, and 30 years ago? 5) If they are a homeowner? 6) How much more are you going to make off of me if I go with a 30 yr. fixed rate?

As we've already seen, the average American's residence in a home that they live in and own is 7 years. Borrowing on the long end of a fixed rate (30 years) is a sub-optimal use of funds. That being the said, why on earth would anyone be interested in 30-year fixed rate mortgage? It's a 23 year + overestimation of ownership and a serious miscalculation based on the statistics at hand. With a 5/1 ARM, your underestimation is only 1-2 years, which is tolerable.

The people pushing 30-year fixed loans: 1) Are not economics majors or bond traders, but the media touting the conventional wisdom or 2) They have a vested interest in your borrowing as long as possible so as to make as much money off a loan as possible. The higher the rate, the better the spread, with 30 yr. fixed rate loans having the most generous spread of all.

WHY THIS IS SO

It's important to understand that the time value of money and inflation. A dollar today is worth more than a dollar tomorrow. This concept is also reflected in what is known as the upward sloping yield curve, the longer you borrow the higher your interest rate. If you borrow money from me today to pay me back tomorrow, I won't charge you interest. But, if you want to borrow money from me today, to pay back over the next 30 years, you sure as hell better believe I'm going to charge you an interest premium to counteract the rate of inflation, and factor in a reward for the risk of default, and a profit for the use of my money.

THUS…

Ideally, one should match their fixed rate with length of their stay. If you plan to live in your house for 10 years, take out a 10 year fixed rate (amortizing over 30 years) as the most conservative loan duration. A 10 year fixed rate is cheaper than a 20 year or 30 year fixed rate. It is only logical that you match your mortgage fixed rate with your expected duration of stay. Sure, you might stay longer, but you might also stay shorter as well. If you know you plan to stay in your house forever, it's more justifiable to take out a 30-year fixed, but I still wouldn't because 1) You will likely pay down your loan faster than 30 years, and 2) The spreads are unjustly high in this environment.

FIXED RATES VS. ARMS

Adjustable rate loans have an interest rate caps. People think, thanks to fear mongering by the media and mortgage officers, that once the adjustable rate loan period is over, your mortgage rate will skyrocket and make things super-unaffordable. This is not the case because everything is relative and rates are capped. If I'm refinancing into a 5/1 ARM at 2.625% with all fees included, and after 5 years, the interest rate can reset one time to a maximum of 7.25%. Big deal! Remember, because it is adjustable it may also fall below that cap rate of 7.25%. (Note: In the past 200 years, mortgage rates have only been above 6% during 26 of those years). Even so, after 5 years, if I don't pay any extra principal, my principal mortgage amount is about 10% less. A 7.25% mortgage rate on a 10% lower principal amount is very affordable.

If rates rocket higher, you will be celebrating. Why? Because things don't happen in a vacuum. The 10-year yield is a reflection of inflation expectations. If the 10-year yield, and therefore mortgage rates are skyrocketing, that means inflation expectations are at the very least skyrocketing. However, you don't have inflation expectations going higher unless demand for real goods and services is going higher. Higher demand is a reflection of a stronger economy or inflating the value of your real assets (property), as well! So what if inflation rises from 2% to 5%, causing your mortgage to reset to 7% due to the 3% spread? If your home is now inflating by 5%, and you have a 80% loan-to-value ratio, your cash on cash return is going up by 25%!

WHAT IS YOUR PEACE OF MIND WORTH?

Insurance salesmen and mortgage officers are very skilled at evoking fear. They will paint worst case scenarios of hyper-inflation and crushing payments so you can pay more money now than you should. A 30-year fixed may provide great peace of mind that your payments will never go up. In fact, your real payments will actually go down over time because you will be paying back a fixed loan with ever cheaper dollars thanks to inflation. The question is, at what price is this worth?

Given that the yield curve is upward sloping, you must study the spreads between each borrowing point. A 30-year fixed rate loan of $1M is currently around 4.25% vs. 2.75% for a 5/1 ARM. One million dollars @ 4.25% results in annual payments totaling $59,032.80 per year of which the interest is $41,174.13 vs. annual payments totaling $29,714.48 of which the interest is $29,714.48 on a 5/1 ARM at 3%. The difference is $12,459.65 more in interest expense ($41,174 - $29,714.48) you will have to pay every year for the length of ownership. If the average length of ownership is 7 years, that's $87,217.55 more in interest expense you would have paid if you borrowed a fixed rate for 30 years. If interest rates stayed the same (not down as it has for the past 30 years), then you would have paid over $253,208 more in interest during the lifetime of the 30 year fixed loan! That is just ridiculous. If your peace of mind, however, is worth $87,217 or $253,208, and you can't handle the reality of economics, don't know your options, and/or don't believe in yourself, then why not.

THE SMART MOVE

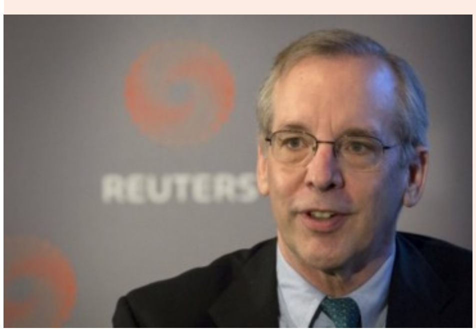
The smart move, if one can afford the payments, is to graduate to a shorter term—going from a 30 year term to a 20 or a 15. The interest rates are also cheaper on the shorter term loans.

GOOD NEWS: THE U.S. ECONOMY GREW FASTER THAN EXPECTED

The U.S. economy was in even better shape than we thought between April and June. The U.S. economy grew 3.7% in the second quarter, a very big upward revision than the first official estimate, 2.3%, according to the Commerce Department's measure of gross domestic product, the broadest measure of economic activity. Economists projected the new number to be 3.2%.

The Thursday's upward revision is welcome news as China's slowing economy is sparking volatility in stock markets, plunging currencies in emerging markets and potentially delaying a rate hike from the U.S. Federal Reserve. Construction and business spending rose in the three months, helping drive the overall GDP number up.

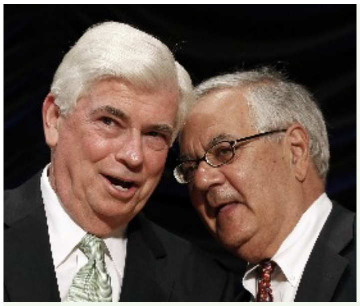
The good economic data only increases the speculation about when the Fed will raise its key interest rate. For much of the summer, economists believed the Fed would do a rate hike in September. But with China's devaluation of the Yuan, and the recent turmoil in U.S. stock markets, the consensus is gradually shifting to December for a rate hike.



New York Fed President William Dudley says a September rate hike is "less compelling," now, but he didn't completely rule it out either. Even Dudley mentioned on Wednesday that he anticipated GDP going higher, and he said the U.S. economy is still doing well.

Rate hike rumblings aside, the revised GDP figure shows that the U.S. economy is still having a solid year despite all the headwinds abroad.

NEW CHANGES FOR MORTGAGE LENDING AS OF 10/3/2015



As part of the Dodd-Frank Wall Street Reform Act ("Dodd-Frank"), the Consumer Financial Protection Bureau (CFPB) was charged with the task of revising and simplifying the rules regarding mortgage loan disclosures as they apply to mortgage lending under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA). The new integrated rule has been placed under TILA, and created new disclosures and associated rules which must be implemented by Creditors for new applications commencing on October 3, 2015 (hereafter referred to as "Integrated Disclosures"). All applications dated prior to October 3, 2015 must use the applicable RESPA and TILA disclosures in effect prior to August 1, 2015.

- **Loan Estimate (LE) Replaces Good Faith Estimate (GFE)**
  The final rule requires the use of the "Loan Estimate" (LE), which will replace the "Good Faith Estimate" or "GFE" and the servicing disclosure statement required under RESPA, the right to receive copy of appraisal disclosure under ECOA, and the "early Truth-in-Lending" or "early TIL" required under TILA. The LE must be issued within three business days of receiving the application.
- The Integrated Disclosures must be provided by a Creditor that receives an application from a consumer for a closed-end credit transaction secured by real property on or after August 1, 2015.
- The Integrated Disclosure rules do not apply to the following types of loans:
  - home equity lines of credit,
  - reverse mortgages, or
  - mortgage loans secured by a mobile home or by a dwelling that is not attached to real property
- **If the Creditor is a wholesale lender, it may allow the mortgage broker to issue the LE on its behalf**. If the Creditor allows the mortgage broker to issue the LE, the Creditor is bound by the terms of that LE if the consumer expressed his/her intent to proceed with the transaction within ten (10) business days of receiving the LE.

Closing Disclosure (CD) Replaces HUD-1/1A
The final rule also requires the Creditor to deliver a "Closing Disclosure" (CD) which will replace the "HUD-1/1A Settlement Statement" required under RESPA and the final TIL disclosure required under TILA.

MORTY'S MAILBAG

Q. I see a lot of economic reports that reference the jobs report and the unemployment rate. Can you explain to me how they impact housing and mortgage rates?

A. The Jobs report tells us how many NEW JOBS were created in a given month. Traders pay close attention to this report because it is a very good indicator of the strength or weakness of the current economy. If traders feel the current economy is strong, then they'll invest in stocks which usually results in a sell-off of bonds which worsens our rates. However, if traders feel the current economy is weak, then they'll typically pull money out of stocks and invest in safer bonds instead which improves interest rates.

What about the Unemployment Rate? The Unemployment Rate affects traders in the same way as the Jobs Report. If it goes up then it means more people are out of work and that means the economy must be weaker, right? If it goes down it indicates a stronger economy. Because the Unemployment Rate goes up or down only slightly each month, it usually has less impact then the Jobs Report, but traders look at it nonetheless.

But what about Housing? At about this point, you may wonder how housing factors in. Perhaps, the best way to explain this is with a real world example:

Former Gov. Rick Perry of Texas and one-time presidential contender claimed that he knew how to create prosperity. While it was true that Texas has had faster job growth than the rest of the country. But, so did other Sunbelt states with conservative governments. The question, however, remained why?

The answer from the Right was that it was all about avoiding regulations that interfered with business and by keeping taxes on rich people low, it encouraged the "job creators" to do their thing. But it turns out that there were big problems with this story, quite aside from misstating the facts.

With apologies to Charles Dickens, let's look at "a tale of three cities".

One of these cities is the place whose inhabitants tend to call simply "the city." And, these days, it's a place that's doing pretty well on a number of fronts. But despite the inflow of immigrants and hipsters, enough people are still moving out of greater New York—a metropolitan area that, according to the Census, extends into Pennsylvania on one side and Connecticut on the other—that its overall population rose less than 5 percent between 2000 and 2012. Over the same period, greater Atlanta's population grew almost 27 percent, and greater Houston's grew almost 30 percent. America's center of gravity is shifting south and west. But why?

Is it, as people like Mr. Perry assert, because pro-business, pro-wealthy policies like those he favors mean opportunity for everyone? If that were the case, we'd expect all those job opportunities to cause rising wages in the Sunbelt, wages that attract ambitious people away from moribund blue states.

It turns out, however, that wages in the places within the United States attracting the most migrants are typically lower than in the places those migrants come from, suggesting that the places Americans are leaving actually have higher productivity and more job opportunities than the places they're going. The average job in greater Houston pays 12 percent less than the average job in greater New York; the average job in greater Atlanta pays 22 percent less.

So why are people moving to these relatively low-wage areas? Because living there is cheaper, basically, because of housing. According to the Bureau of Economic Analysis, rents (including the equivalent rent involved in buying a house) in metropolitan New York are about 60 percent higher than in Houston, 70 percent higher than in Atlanta.

In other words, what the facts really suggest is that Americans are being pushed out of the Northeast (and, more recently, California) by high housing costs rather than pulled out by superior economic performance in the Sunbelt.

But why are housing prices in New York or California so high? Population density and geography are part of the answer. For example, Los Angeles, which pioneered the kind of sprawl now epitomized by Atlanta, has run out of room and become a surprisingly dense metropolis. As Harvard's Edward Glaeser and others have emphasized, high housing prices in slow-growing states also owe a lot to policies that sharply limit construction. Limits on building height in the cities, zoning that blocks denser development in the suburbs and other policies constrict housing on both coasts; meanwhile, looser regulation in the South has kept the supply of housing elastic and the cost of living low.

So conservative complaints about excess regulation and intrusive government aren't entirely wrong, but the secret of Sunbelt growth isn't being nice to corporations and the 1 percent; it's not getting in the way of middle- and working-class housing supply.

And this, in turn, means that the growth of the Sunbelt isn't the kind of success story conservatives would have one believe. Yes, Americans are moving to places like Texas, but, in a fundamental sense, they're moving the wrong way, leaving local economies where their productivity is high for destinations where it's lower. And the way to make the country richer is to encourage them to move back, by making housing in dense, high-wage metropolitan areas more affordable.

Has Texas been growing so many jobs because the governor cut taxes and regulations? Or is it because Texas happens to be a state with warm weather and lots of space for cheap housing, a huge border with Mexico and massive oil and gas deposits? Is Perry a great leader or just conveniently located? Or is it like the Ann Richards' joke about being born on third base and thinking you just hit a triple? So, Rick Perry's formula for creating prosperity isn't the result of lax regulation and a pro-business environment or even of regional growth—it's affordable housing.

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 morty@mortgagestraightTalk.com

RATE SUMMARY

Though rates moved up and down, they ended where they began.

*Conforming programs—no change ↕
*Jumbos—no change ↕
*Governments—no change ↕

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