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GOOD START TO 2015
(Week ending January 2, 2015)

Weaker than expected US economic data and concerns about the pace of global economic growth helped bonds and hurt stocks during New Years week. Mortgage rates ended the week a little lower, and they begin 2015 over 50 basis points below the levels seen at the start of 2014.

The biggest economic report released this week was Friday's ISM National Manufacturing index. The ISM index declined to 55.5, which was well below the consensus

BEST BUYS THIS MONTH

- Conforming 15 yr. fixed @ 2.500%
- Conforming 5/1 ARM @ 2.375%
- High Balance Conforming 15Yr. fixed @ 3.250%
- Jumbo 5/1 ARM @ 2.625%
- FHA/VA Conforming 30 Yr. fixed @ 3.00%/3.125%
- FHA/VA Conforming 15 Yr. Fixed @ 2.500%/2.500
- FHA/VA High Balance Conforming 30 Yr. fixed @ 3.125%/3.250%

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

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**

forecast, and the shortfall caused mortgage rates to improve. The ISM index measures whether the manufacturing sector is expanding or contracting. Readings above 50 generally indicate expansion, so this week's data suggests further improvement in the sector, but possibly at a slower pace than seen in recent months.

At the beginning of 2014, most forecasters predicted that stronger US economic growth would cause mortgage rates to increase during the year. Faster growth increases expectations for future inflation, which is negative for mortgage rates. In fact, the US did experience even better economic growth than had been anticipated, yet mortgage rates fell. The explanation is that expectations for future inflation did not increase even with the upswing in US economic growth. Outside the US, the pace of economic growth fell far short of the predicted levels. This held down global inflation levels, supporting low US mortgage rates.

IMPRESSIVE 2014 JOB GAINS (Week ending January 9, 2015)

Concerns about the pace of global economic growth caused bond yields around the world to decline this week. The US economic data released this week had little impact. Mortgage rates ended at the lowest levels in over a year.

The US labor market finished an impressive 2014 on a high note. The economy added 252K jobs in December, which was a little more than expected, and upward revisions to prior months added another 50K. For 2014, a total of 2.9 million jobs were added, the most since 1999. The Unemployment Rate fell from 5.8% to 5.6%, the lowest since June 2008.

Despite the labor market strength, though, the level of wage growth in 2014 was a little disappointing. Wages were just 1.7% higher than one year ago. Fed officials hope to see annual wage growth of 3% to 4%, which would be in line with past economic recoveries.

The Federal Housing Administration (FHA) announced this week that beginning around the end of this month it will reduce by 0.50% the annual mortgage insurance premium (MIP) it charges on new loans. Since MIP is calculated like an interest charge, the reduction will feel to some home buyers like mortgage rates suddenly fell by 0.50%. This change will make home ownership more affordable for many people, especially first-time buyers.

LOW INFLATION, LOW RATES (Week ending January 16, 2015)

Weaker than expected economic data was favorable for mortgage rates, this week. A surprise announcement from the Swiss National Bank caused a lot of volatility, but had only a small net effect. Mortgage rates again ended the week a little lower.

The biggest economic reports released this week contained mostly positive news for mortgage rates. December Retail Sales posted a much larger than expected decline. This report is volatile month to month, though. Looking at the entire fourth quarter, Retail Sales posted solid gains.

The inflation data also supported lower mortgage rates. Core CPI inflation which excludes food and energy was just 1.6% higher than one year ago, back to the lowest level of the year, and well below the Fed's target level of 2.0%. Due to the decline in oil prices, overall CPI inflation was just 0.8% higher than one year ago, the lowest annual rate in over five years.

Increased expectations for sovereign bond purchases by the European Central Bank (ECB) also helped mortgage rates improve this week. Continued low readings for both economic growth and inflation data in Europe suggest a need for additional stimulus. In addition, a court ruling in Germany cleared a path for the ECB to initiate a bond purchase program. On Thursday, the Swiss National Bank caught investors off guard with a major change in monetary policy (Switzerland is not in the European Union). While the Swiss National Bank has no inside knowledge about ECB policy, this move was made to prepare Swiss markets for expected sovereign bond purchases by the ECB.

ECB WILL PURCHASE BONDS (Week ending January 23, 2015)

This week, investors were focused on Thursday's European Central Bank (ECB) meeting. The ECB announced a highly anticipated new bond purchase program. There was a lot of volatility around the announcement, but it had little net effect, and mortgage rates ended the week just a little lower.

Beginning in March, the ECB will purchase 60 billion Euros ($69 billion) per month of public and private bonds. The bond buying will continue at least through September 2016. Most of the purchases are expected to be sovereign bonds of Euro zone countries. This program will be similar to the quantitative easing (QE) measures used by the US Fed. In recent months, the prospect of this added demand from the ECB pushed global bond yields lower, helping US mortgage rates. Since there were no significant surprises in the details of the program, the announcement had little net effect on US mortgage markets this week.

The housing data for December released this week showed that we head into 2015 at a faster pace than at this time last year. Existing Home Sales are 4% higher than one year ago. Single-family Housing Starts are at their best level since March 2008. Building Permits, a leading indicator of future activity, also are higher than one year ago.

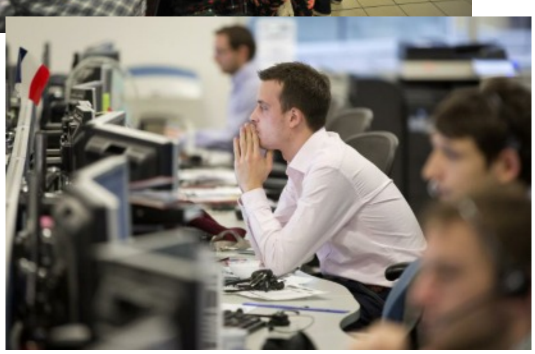
Headwinds for housing market activity in 2015 include a low inventory of existing homes for sale and higher home prices. Median existing home prices rose in 2014 to the highest level since 2007. Mortgage rates are certainly not an issue, as they are now lower than at any time last year.

GDP Falls Short (Week ending January 30, 2015)

The major economic events this week were generally bond friendly. The US GDP data fell short, the Fed statement was very similar to the prior one, and core inflation declined in the Eurozone. As a result, mortgage rates continued their move lower.

The first reading for fourth quarter GDP, the broadest measure of economic activity, showed an annualized growth rate of just 2.6%, below the consensus of 3.2%, and down from 5.0% in the third quarter. For all of 2014, GDP increased 2.4%.

The performance of the key components of GDP were mixed during the fourth quarter. Consumer spending was a bright spot, rising at the fastest pace in almost nine years. Business investment was weak, however, and exports were hurt by the stronger dollar. Mortgage rates improved a little on the news, but it is hard to read too much into the report considering the size of recent revisions. Three months ago, the first reading for third quarter GDP was 3.5%.



Wednesday's Fed statement was very similar to the December 17 statement, and it offered few new clues about the timing of the first fed funds rate hike. Fed officials appear to want to wait and see the performance of the economy in coming months before signaling a policy change. The two primary changes in the statement included an upgrade to the Fed's description of the economy and the explicit acknowledgment that international events will be a factor in future Fed policy. Bond investors reacted positively to the lack of surprises from the Fed.

ANNUAL FORECAST FOR 2015

It's been said that "a picture is worth a thousand words" and in the past few years I have noted the reason for my making the annual forecast in February, instead of January was because finding year-end graphs and tables for various sectors of the economy is never easy and in mid-December, at best, they involve projections even for the close of 2014. This year, I have no excuse as I am not going to feature any graphs or tables, per se. So as the name of my firm is Mortgage Straight Talk, I will confine this month's newsletter to just the verbiage.

WHERE WE'RE AT

In recent years there has been a consistent pattern in mainstream economic forecasting. It goes like this: "Yes, 2014 has been rough. But growth should pick up in 2015." These rosy projections of improving growth in the pending have all too frequently had to be revised when that future did not subsequently materialize. But for the first time in a long while, that future appears to have finally arrived.

Having weathered the worst financial crisis in generations, the U.S. fundamentals are good: economic growth, the job market, and corporate balance sheets. The American economy appears to be chugging along—strongly—with GDP growth in the 2nd and 3rd quarters at 4.6% and 5%, respectively. The U.S. economy has added 2.3 million jobs in 2014. The unemployment rate is 5.6%, not far from what most economists think is typical rate of around 5% when the economy is humming along. Gas is under $3 a gallon.

GLOBAL WEAKNESS: In trying to assess the future growth, earnings, etc. we were taught in business school to work from the macro to the micro or the general to the specific. Similarly, when it comes to assessing a nation's GDP you have to see where it fits into the bigger picture: Where it is with respect to the rest of the world. America is the world's preeminent economy and it had the strongest economic growth in 2014. But elsewhere, the picture elsewhere is grim. Japan has lurched from optimism about Abenomics—Prime Minister Shinzo Abe's program to kick-start the economy—to pessimism as the economy has shrunk over the last two quarters. And Europe hovers on the edge of a double- or triple-dip recession, depending on your definition. China has slowed, with economic growth moving below 8 percent a year from an extraordinary 10 percent. And the Russian economy is on the cusp of a full-fledged crisis. With the reduced foreign demand for American products, domestic investment and hiring becomes threatened because the dollar's strength also makes our exports more expensive.

The World Bank, citing the stagnation in Europe and Japan and a slow-down in China, lowered its expectations for global growth in 2015 from 3.4 percent to 3 percent. And even though the European Central Bank has promised to purchase nearly a trillion Euros, I believe the bank's stimulus policies will prove too little, too late. It's already in a deflationary trap of the kind we saw in Japan in the 1990's, but it's less well equipped to deal with the institutional challenges of managing a currency bloc of 19 nations than Japan was. The question is whether the U.S. economy can withstand the weakness abroad.

ECONOMIC GROWTH: Domestically, my predictions for U.S. economic growth in 2014 were 2.7%. The disappointing December retail sales report revealed that the actual growth in fourth quarter GDP was 2.6%. So, the economy grew only 2.5% and my estimate was slightly optimistic. So the economy grew only 2.5% annually. I foresee economic growth continuing to expand this year. I believe falling oil prices will do the domestic economy more good than harm, leading to increased spending and job growth. Because of the weakness of foreign economies and what it bodes for our exports I am not as optimistic as the Fed when it says that the GDP growth will hit 3.5% for 2015 or the World Bank's expectations of 3.2 percent, up from 2.4 percent in 2014. I would peg GDP growth for 2015 at 3.1%.

UNEMPLOYMENT: Anyone who has made economic predictions for any length of time, myself included, has made some clunkers. Last year's forecast was no exception, especially when it came to unemployment. Both the Federal Reserve and I underestimated job growth. I figured that the country's unemployment rate would close out 2014 at 6.6%, but it did much better at 5.6%. What can I say, but wow, was I off!

One area where I was nearer the mark was that the reduction in unemployment reflects a decline in the share of the population in the work force. The labor participation rate remains largely unchanged at 62.7%. It is stuck near multi-decade lows, an indication that few of the workers who gave up the search for work during the lean years are likely to be hired anytime soon.

Another area was that of "underemployment" (part-time work) when I stated that it was not likely to budge—and it didn't. About 6.9 million Americans who are counted as employed are working part time because they remain stuck in part-time jobs but want full-time work.

In 2015, the economy will see a further increase in jobs. The number of job openings is at a 14-year-high and will keep rising, adding to the improving mood of consumers—who account for two-thirds of the nation's economy. The one disconnect here is that wages still aren't growing. Average hourly earnings are up about 2%, just slightly ahead or inflation. The economy is still wounded and the route to recovery runs through the government. Direct policies could raise wages in the near term, including the minimum wage. But, a movement to raise the minimum wage is being firmly resisted by the Republican majorities in both houses and I expect to see it continue.

After missing the unemployment figure in 2014, I am reluctant to underestimate the decrease two years in a row. And even though we are at 5.6%, right now, I will revert to my analogy from last year when I say that shrinking the unemployment rate is like dieting—it's hard to shed that last 10 pounds. Consequently, I don't think we will see the unemployment rate finish the year below 5.2%.

THE FED & INTEREST RATES: Although I stated last year that "encouraging signs of increased hiring and manufacturing activity point to a better-performing economy in 2014, the economic pace is likely to remain well below levels that would call for appreciably higher interest rates, my prognostication regarding mortgage rates were as wide of the mark as were those about unemployment numbers. I expected that as the Fed tapered its $85-billion-a-month bond purchases (which ended in October) that mortgage rates would rise to 4.45%. That prediction looks laughable considering that they fell and are now at 3.45%.

What I failed to foresee were the geopolitical factors outside the U.S. that kept mortgage interest rates down at home. Weak growth in GDP in Asia and Europe led to higher than normal interest in the dollar. Adding to concerns over the Russia-Ukraine situation as well as with Iran and nuclear diplomacy pushed the yield on the dollar. Before 2008, the 36-year average mortgage interest rate was 9.2%, and never below 5.8%.

Like the IMF and the World Bank, the Fed has worried about the consequences for foreign economies and the stability of financial markets. But, given the growing optimism about the strength of the economy and the job market improving in recent months, the Federal Reserve will begin to normalize monetary policy. Most Fed officials have concluded that raising the Fed's benchmark rate is in the offing for 2015, but they are waiting because falling oil prices are suppressing the already sluggish pace of inflation. They remain determined to err on the side of caution. Consequently, the rate hikes are expected to be modest and will likely not occur until the end of summer. I believe the rate on a 30 yr. fixed conforming is apt to be about 4.25% by the end of 2015.

INFLATION: When it came to inflation, I nailed it at 1.8% in 2014 as the big slide in crude oil and gasoline prices muffled inflation in 2014. Yet, ever since the recovery from the Great Recession began more than five years ago, the most crucial missing pieces of the economic puzzle were the lack of consistently strong gains in hiring and better wages for most working Americans struggling to make ends meet. Now, at last, those pieces are starting to fall into place.

The Labor Department's monthly report on job openings, hiring and firing showed a continuation of a trend that has been under way for more than a year: the ratio of openings to people hired matches some of the highest levels on record which suggests that they will have to make those jobs more attractive to fill those openings with higher pay, improved benefits, better working conditions or a combination of these benefits. Even more significant was that the improving job market finally delivered a sharp jump in average hourly earnings for ordinary workers, that was double the anticipated 0.2 percent increase. As a result, I expect consumer prices to pick up in 2015, along with wages. But, as an offset, I expect instability in the Eurozone, a strengthening dollar, and falling oil prices to continue for the foreseeable future. So, I don't foresee inflation topping 2% in 2015 and probably a replay of 2014 at 1.8%.

THE STOCK MARKET: In 2014, I wrote: the market seems to have begun a transition to fundamentals which are strengthening like an expanding US economy, higher job creation, gains in labor productivity, lower energy prices and subdued inflation. My prediction for 2014 of a Dow at 17,725 represents an increase of 7%. It actually closed at 17,823.07, for a gain of 7.52 percent for the year. So, my prediction was off by fifty-two basis points basis points. (A basis point is 1/100th of a percent)

One hallmark of this year's market that is emerging is its extreme volatility. Even though it's early we have seen several days with three and four-hundred point swings from peak to trough in a day. I suspect this volatility has much to do with oil's slide form $107 to $50/barrel. Still, based on strong economic fundamentals I expect to see the stock market continue to rise in 2015.

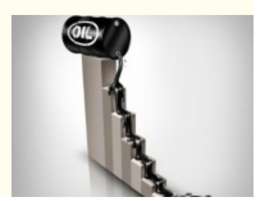
But market volatility also seems to presage that something's in the offing. The bond market has an uncanny way of predicting downturns when it sees the yield curve flattening which is usually not a good sign. The yield on the 10-Year U.S. Treasury has tumbled below 2%. Yields fall when investors are buying bonds. Yields are typically not this low. The Federal Reserve has also strongly suggested that it will begin to raise interest rates later this year. Yields usually go up when the market expects the Fed to hike rates. But investors are still buying bonds because the U.S. economy continues to be viewed as relatively stable, a so-called safe haven for cash. So, I wouldn't be surprised if we were on the brink of a 10% market correction. After more than 65 month's of continuous business expansion, a 10% market correction of 10% is long overdue. They are healthy and occur often in normal bull markets, but we haven't had one for the S&P 500 since the summer of 2011. The good news is that if all these fear factors lead to a 10% drop in the market that may scare off some of the speculators and make stocks more attractive again for long-term investors. If that happens, I predict we will still see a gain for the year in the range of 8% to 9% and a Dow a couple hundred points above the 19,000 mark.

HOME PRICES: All real estate is local. What I mean by that is that San Diego County's numbers are not reflective of the nation as a whole. Last year, I went with Case-Shiller's estimate that housing price

appreciation would hit 6.8% in 2014. But, as October 2014 (the latest available figures) annual appreciation was only 4.6% nation-wide. Yet, in San Diego County, they exceeded the county norms of 5.5% and came in at 6.6%.

It's been an odd year for the housing market. It kicked off with the 'Polar Vortex,' blamed for slowing home sales in the early part of the year. As 2014 drew to a close, the National Association of Realtors said it expected sales of previously owned homes to fall short of 2013's total, while the latest monthly data on new homes show sales were up just 1.8% in October from a year earlier. Meanwhile, price gains for previously owned homes have slowed significantly. Still, builder confidence in the market for newly constructed, single-family homes has been high for six straight months. What's going on? The confusing signals actually have a straightforward explanation: the housing market has been shifting out of rapid recovery and into a more stable phase that economists are calling the "new normal".

Housing price gains slowed dramatically in 2014 and I expect them to continue on that trajectory in 2015. I anticipate that housing for 2015 will remain in a recovery mode, with builders expected to increase the pace of new-home construction this year. Zillow predicts home prices will rise just 2.5% in 2015; Realtor.com predicts an annual gains of 4%-5%. I believe that prices will rise more slowly this year in San Diego County will revert to its county norms and grow by approximately 5.2%, and nation-wide, closer to 3.7%.



OIL: The big news this year was the stunning drop in oil prices to less than half of what they were a year earlier. I, along with so many others, was blind-sided by the drop. I expected to see oil trading in the $90/bbl price range. My bad.

Typically, an oil price decline is like a tax cut, leaving more money in consumers' pockets

to spend elsewhere. That should spur growth. Oil prices remain under downward pressure and that's taking a toll on the U.S. energy industry since the United States is not only a leading oil consumer but also a leading producer. Lower oil prices also spell smaller revenue for some of our energy companies. Domestic production becomes unprofitable below $60 a barrel, so further investment in them may become unprofitable if prices fall too far.

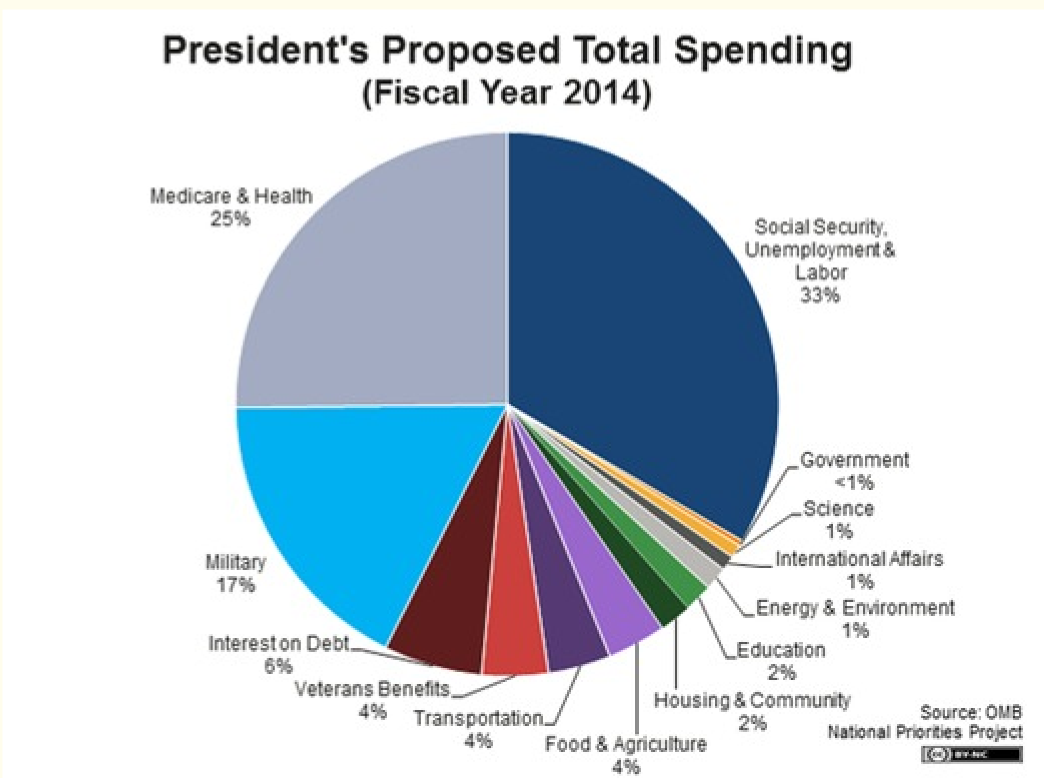
Expect to see crude to rebound in coming months back to a range of $70 to $75 per barrel this spring. The combination of slowing U.S. output, stronger consumption and the possibility of more turmoil in the Middle East should gradually put a floor under it and then send it higher.

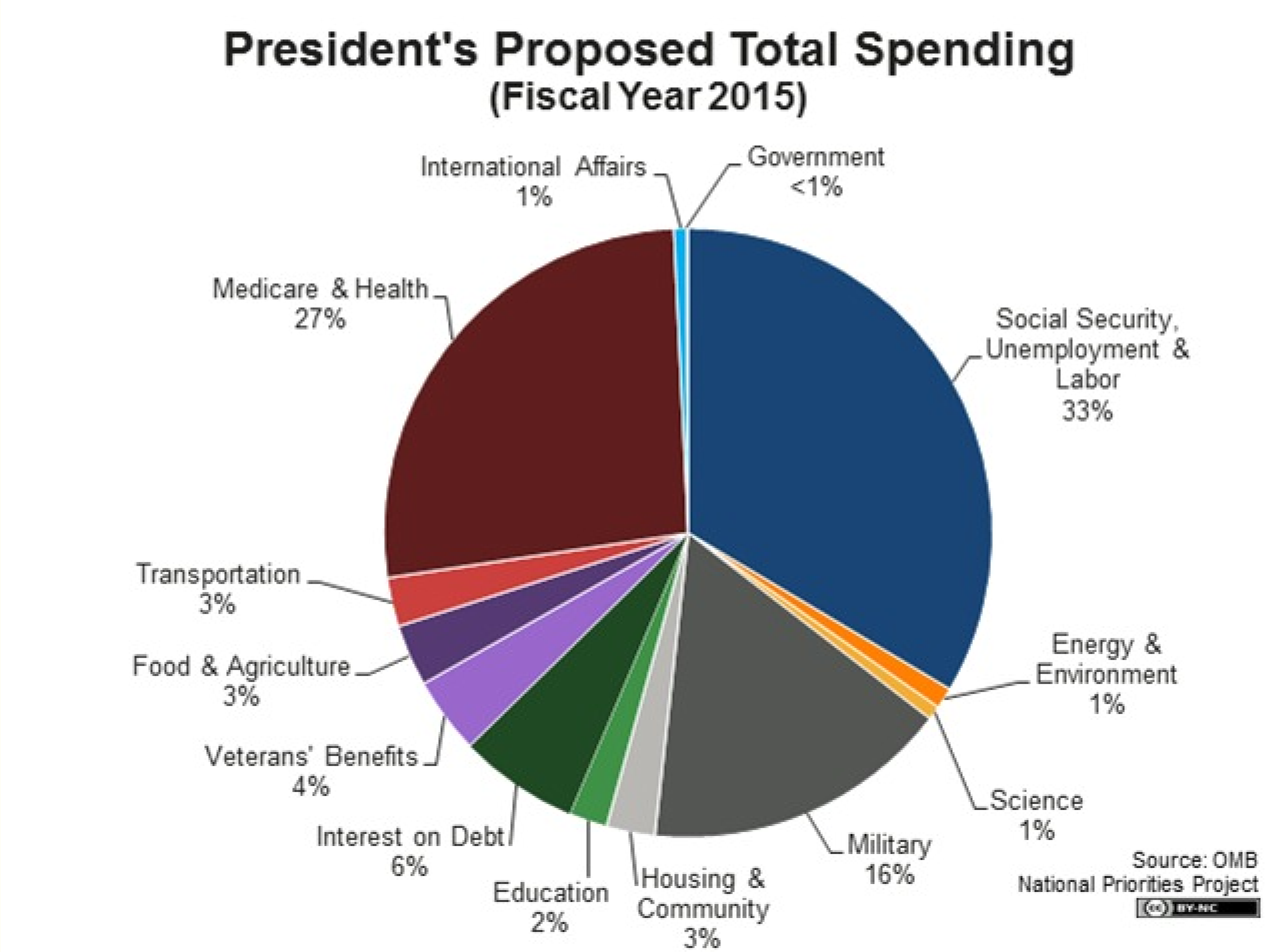
Natural gas prices have been edging down, too. Despite healthy gas demand and a weather forecast calling for a cold snap across much of the country, the benchmark price for natural gas slipped a bit this week, to $2.93 per million British thermal units (MMBtu). I don't foresee that price moving much, either up or down in coming weeks, though I'd look for a gradual increase to about $3.25 by spring is likely as heating demand draws down the amount of gas held in storage. Supplies are already slightly below their average for this time of year.

BUSINESS SPENDING: The actual growth in retail sales for 2014 was 5%, not too far below the 5.2% I had it pegged at. A gradual pickup in the pace of U.S. economic activity next year will spur stronger investment to expand output, though it will fall short of a spending boom. While the U.S. economy is securely on track for heftier expansion of about 3% GDP growth next year, concern about weakness abroad and the potential impact that will have on U.S. exports will dampen enthusiasm for spending. I would estimate growth in retail sales to approximate 6.5%.

RETAIL SALES: Retail sales will be aided by a better jobs market, higher wages and improved consumer confidence. I expect retail and food sales to come in around about 4.2% overall in 2015, similar to the increase in 2014. Though lower gasoline prices will see spending at the gas pump drop 9% for the year, keeping a lid on overall retail sales growth, the extra cash in motorists' pockets will help boost sales of all other items by an average of 5.6%

TAXES, GOVERNMENT SPENDING, AND DEFICITS: For this last category I have decided to simply reproduce the President's 2014 Budget followed by the one for 2015. As you can see from the pie charts below, the largest piece of the pie goes to entitlements such as Social Security, pensions, unemployment benefits. The military's budget has been trimmed by 1%, while Social Security & Unemployment have remained at 33%.



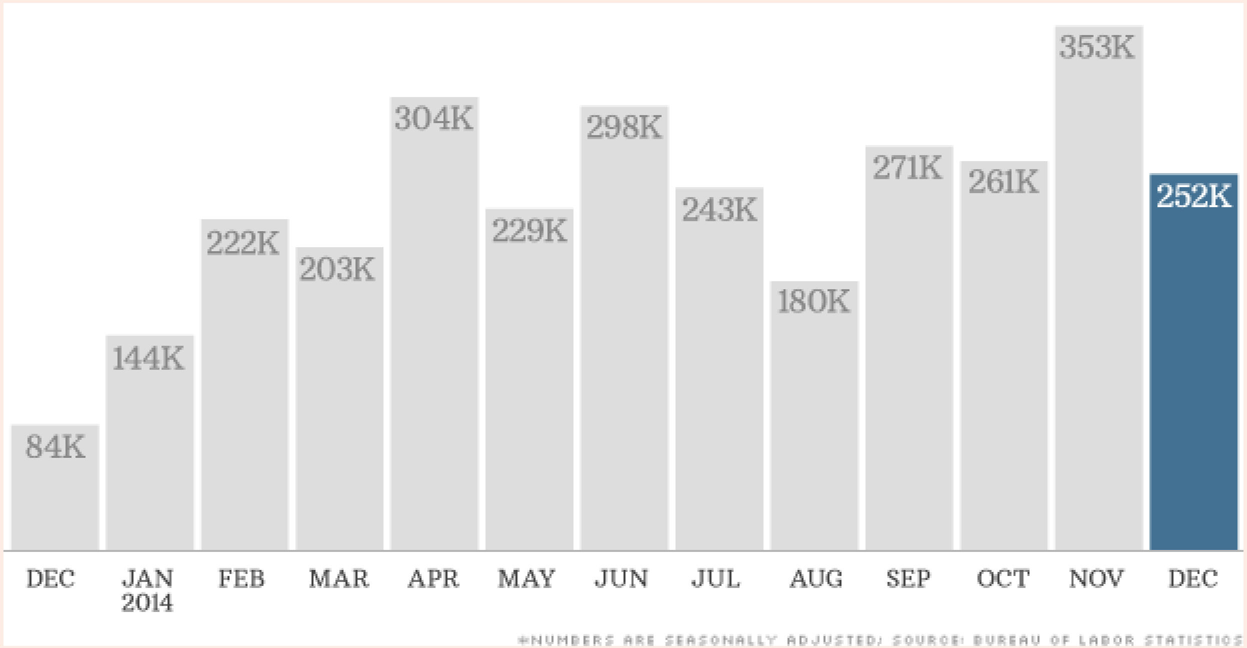


The other major entitlement expenditure, health care costs, accounts for 25 percent of the U.S. budget, up 2% from the one for 2014. The Affordable Health Care Act, while not perfect, (a single-payer plan would have been more cost effective) seems to be doing what it was designed to do in terms of slowing the rate of increase in health care costs, while providing coverage for another 6.7 million Americans. Reining in health care costs is crucial because, in the long run, it is vital to taming the deficit. These cost containment features will cut the nation's long-term fiscal imbalance and reduce the projected deficit within Medicare by three-quarters. The combination of rising tax receipts and falling spending has caused federal borrowing to plunge. This has actually been a bad thing because premature deficit-cutting damages our still-weak economy—in fact; we'd probably be close to full employment now but for the unprecedented fiscal austerity of the past 4 years.

As in years past, Republican loathing of taxes and domestic spending continues to dominate the budget debate. For instance, on the debt/spending issue, Congress should be borrowing money at these unusually low rates to invest in a 10-year upgrade of our crumbling infrastructure (roads, bridges, telecom, ports, airports and rail lines) and in a huge funding increase for our national laboratories, research universities and institutes of health, which are the gardens for so many start-ups. Together, such an investment would stimulate sustained employment, innovation and the wealth creation to pay for it.

CONCLUSION: The economy seems poised for another year of solid, but modest growth. The wild card is the rest of the world. As demand picks up, both domestically and abroad, it should result in an improved employment picture. Even though increased manufacturing activity and hiring suggests a better economy in 2014, as in years past, we need to be investing for the longer term in education, infrastructure and innovation. Instead, we have slashed spending on important domestic needs while doing little to address job creation, immigration and tax reform. The members of Congress, and particularly the Republican majority, could do much more to help if they only would act to advance the broad interest of the public rather than the narrow interests of their party.

2014 WAS AMERICA'S BEST YEAR OF JOB GROWTH SINCE 1999



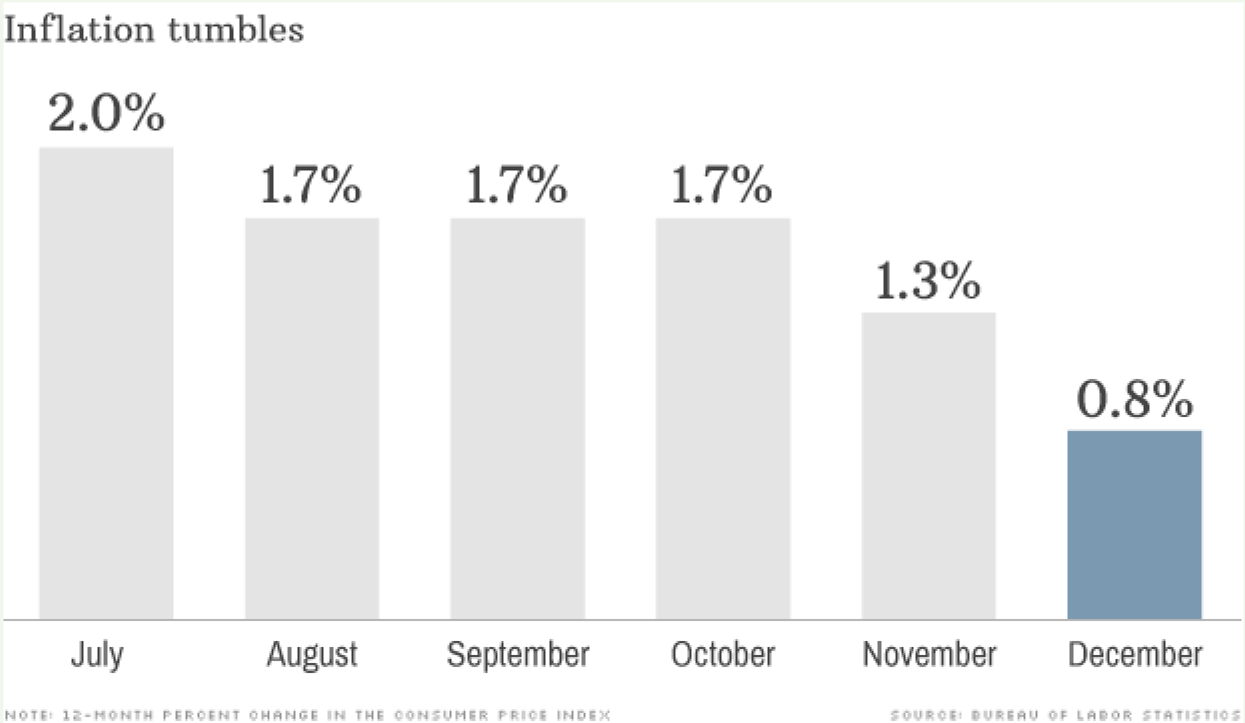
Last year was America's best year of job growth since 1999. More than 2.95 million jobs were created last year, according to the latest figures from the Department of Labor. It's encouraging news as the U.S. tries to put the Great Recession and sluggish recovery solidly behind it. Many economists expect 2015 to be equally as strong, if not better, for job seekers. The unemployment rate fell to 5.6% in December, down from 5.8% in November. That's also a big drop from the 6.7% rate in December 2013. It's expected to hit 5.2%--around the normal level–by the end of the year.

Throughout the recovery, the concern has been that America was adding jobs slowly and people hunting for work were getting so frustrated they would drop out of the workforce altogether. But the U.S. added over 200,000 jobs every month in 2014 except two. The end of the year was especially strong with 252,000 positions added in December. The government also revised up its estimates for job gains in October and November, revealing employers added more than 50,000 jobs than previously thought. November was already the best month of the year for job gains. All of this clearly suggests the economy is on a much stronger growth track than the first four years of the recovery."

But there are still some red flags for American workers. While job growth continues to pick up steam, wages have not. The government said average hourly earnings fell slightly in December from the previous month. Wages were up 1.7% over the past year, but that's barely ahead of the pace of inflation—meaning workers really aren't better off.

Also, the number of long-term unemployed, those jobless for 27 weeks or longer, was unchanged at 2.8 million. That figure has declined by 1.1 million over the past year, but is still much higher than normal.

DECEMBER CONSUMER PRICES FALL MOST IN 6 YEARS



U.S. consumers are really getting a break. Prices for everything Americans pay for—from home furnishings and used cars to airline fares—fell in December by 0.4% compared to November. It was the steepest decline since December 2008. The sharp drop in gasoline prices was the biggest contributor.

The Consumer Price Index, a key measure of inflation, rose 0.8% in December from a year ago, according to the Labor Department. It was the lowest rate since November 2009. While low prices are great for consumers, it's worrisome for those in charge of the country's monetary policy. Federal Reserve Chair Janet Yellen sees a moderate 2% increase in consumer prices as a sign of a healthy economy. With jobs growing and other parts of the economy revving up, the Fed has ended its six-year economic stimulus program. But inflation has to be around the 2% threshold for the Fed to consider raising its key interest rate this year.

Taking out the volatile food and energy prices, core inflation rose 1.6%, tying its lowest mark for 2014. Gas prices at the pump dropped 21% in December from a year ago and 9.4% from the previous month. The low gas prices and job growth are driving consumer confidence. The University of Michigan consumer sentiment index is at its highest mark in over a decade.

Although deflation is a major economic concern, it's not time to hit the panic button. Gas prices should stabilize in the coming months and hopefully inflation will rise towards the Fed's goals in the second half of 2015. At present, the U.S. is the bright spot in the global economy.

THE 3% DOWN PAYMENT MORTGAGE MAKES A COMEBACK

In an effort to open up lending to more low-income and first time home buyers, Fannie Mae and Freddie Mac announced Monday that they will start backing mortgages with down payments of as little as 3% of the home's price. But borrowers will still need to meet strict criteria first, the two government-backed mortgage giants said.

The new loans will only be doled out to those who buy private mortgage insurance, have a credit score of at least 620 and offer complete documentation of their income, assets and job status. And, to further mitigate risk, the agencies will require borrowers to receive home ownership counseling. Both programs are for fixed-rate loans given to first time homebuyers and those seeking to refinance. Fannie will start backing the loans as soon as December 13, while Freddie will start offering them March 23.

The move should expand access to credit for first-time homebuyers, typically younger buyers who have not have had enough time to save a big lump sum. Fannie and Freddie already back mortgages with as low as 5% down. And the Federal Housing Administration insures 3.5% loans.

The 3% loans from Fannie and Freddie should also offer some advantages over the 3.5% down loans offered by FHA. For example, the FHA loans require borrowers to pay for private mortgage insurance premiums for the entire term of the mortgage -- typically 30 years. That means adding an extra 1.35 percentage points to monthly mortgage rates. A loan carrying a 4% rate, for example, becomes a 5.35% mortgage. In dollars, that's about an extra $80 a month for every $100,000 borrowed or $960 a year. That adds up to nearly $30,000 over the life of the loan.

Under Fannie and Freddie's programs, borrowers are permitted to cancel their private mortgage insurance premiums once the mortgage balance drops below 80% of the home's value -- either because they've made enough payments or the home's value has risen. If home prices increase 5% a year for three or four years, for example, these borrowers may be able to cancel their insurance and save them tens of thousands of dollars over the next 26 or 27 years.

HOUSING 2015: THE RETURN OF FIRST-TIME HOME BUYERS

When it comes to the housing market, 2015 may be the year first-time home buyers make a comeback. With rents rising faster than incomes, many Millennials are expected to start looking to buy homes of their own. What they will find are much more favorable conditions than they have seen in years, including lower down payment mortgages, looser lending standards and a bigger selection of homes to choose from.

Here are four housing market trends economists and other industry experts expect to see in the year ahead.

1. **<u>Looser lending standards.</u> Conspicuously absent from the housing market over the past five years have been first-time home buyers. But in early December, Fannie Mae and Freddie Mac put new lending guidelines in place and started offering 3% down payment mortgages that will make it easier for more first-time buyers to qualify for a mortgage. Add to that a strengthening job market, and prospects look much brighter for young home buyers. According to the Mortgage Bankers Association, sales of new homes are expected to climb by more than 13% in 2015, while existing home sales are expected to increase by 5%. A spike in the number of first-time home buyers should spark a chain reaction by enabling existing homeowners to sell their homes and buy more expensive ones.**
2. **<u>There will be more homes to choose from</u>. Builders are ramping up production of smaller homes to accommodate these new entry-level buyers, said Stan Humphries, chief economist for Zillow. Homebuilder D.R. Horton formed Express Homes, to build no-frills homes ranging in price from $120,000 to $150,000, about half the average price of the homes it normally builds. Other builders, like LGI Homes and KB Homes are also targeting first-time buyers.**

3. <u>Home prices will become more affordable</u>. With so many new homes slated to come onto the market, the supply is expected to loosen up and take some pressure off of home prices. That should improve affordability in some of the more out-of-reach metro area markets like Washington, D.C., San Jose, Calif., and Seattle. Plus, says Robert Shiller, the Nobel-Prize winning economist and co-founder of the S&P/Case-Shiller home price index, "home prices look somewhat expensive." In fact, he thinks a decline in home prices is a "distinct possibility."

   Other economists expect to see small gains. Jed Kolko expects increases, but only in low single-digit percentages because there will be fewer big institutional investors buying up properties and propping up prices.

4. <u>Mortgage rates will move higher—at some point</u>. If there's any single market trend that real estate industry pros have gotten consistently wrong lately, it's the direction of mortgage rates. But most do expect rates to rise at some point in 2015. In December, the Federal Reserve signaled that it would not raise the Federal Funds rate until the summer of 2015 or perhaps even later.

RATE SUMMARY

Concerns about global economic growth and falling oil prices held down rates this month.

Conforming programs—a 1/4th to an 1/8ths better ↓

Jumbos—an 1/8th better ↓

Governments—an 1/8th better ↓

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 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

MORTGAGE MIRTH

Latest survey shows that 3 out of 4 people make up 75% of the world's population.