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BEST BUYS THIS MONTH

- Conforming 5/1 ARM @ 2.375%
- High Balance Conforming 30 yr. Fixed @ 3.625%
- High Balance Conforming 15 yr. Fixed @ 2.875%
- Jumbo 30 yr. Fixed @ 3.750%
- Jumbo 5/1 ARM @ 2.750%
- FHA & VA 30 yr. High Balance Conforming Fixed @ 3.250%
- DU Refi Plus/Open Access 30 Yr. Fixed @ 3.625%

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

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Is A Fed Rate Hike Near?
(Week ending August 7, 2015)

On Tuesday, Fed member Dennis Lockhart gave investors the impression that the first federal funds rate hike is likely to take place soon. In essence, he said that he believes that a rate hike will be appropriate in September unless the economy significantly underperforms expectations. While other Fed officials may feel differently, investors took this as a warning to be prepared for a rate hike at the next Fed meeting on September 17.

The major economic reports released since Lockhart's comments showed that the economy remains on track to meet his requirements for a rate hike. Wednesday's ISM

Services data revealed an unexpectedly large increase to the highest level since 2005.

Friday's Employment data, the biggest report of the month, matched the consensus forecast across the board. The economy continued its pace of strong job gains above 200K with the addition of 215K jobs in July. The Unemployment Rate remained at 5.3%. Average Hourly Earnings, an indicator of wage growth, were 2.2% higher than a year ago.

China Devalues Currency (Week ending August 14, 2015)

A surprise move in China helped mortgage rates improve early in the week. Stronger than expected U.S. economic data had the opposite effect later in the week. After the offsetting influences, mortgage rates ended slightly higher.

China has long held its currency, the yuan, at a fixed value versus the dollar. On Tuesday, China unexpectedly implemented a policy change which let the value of the yuan drop versus the dollar. Mortgage rates improved on the announcement because investors saw the move as an indication that the Chinese economy is slowing more quickly than expected. If this is true, global inflationary pressure will fall. In addition, US exports to China likely will slow as U.S. goods and services will be more costly, further reducing inflationary pressure. Lower inflation is positive for mortgage rates.

Recent U.S. economic data told a different story about the outlook for inflation. Retail sales account for about two-thirds of U.S. economic activity. The report released Thursday revealed that retail sales rose solidly in July, but this was expected. The surprise was that the disappointing results for June were revised significantly higher. Friday's report on industrial production, another important indicator of economic activity, also exceeded expectations.

Inflation Outlook Helps Rates (Week ending August 21, 2015)

The Minutes from the July 29 Fed meeting revealed that Fed officials have mixed views about when to raise the federal funds rate. The Minutes conveyed that most Fed officials agree that conditions for tightening are close to being met, but many officials remained reluctant to commit to a rate hike at the next meeting on September 17. One reason cited for waiting is that the inflation rate has remained below the Fed's target level for several years, and the Fed lowered its forecast for future inflation. In addition, some Fed officials pointed out that a slowdown in China, likely would reduce global inflationary pressures. Since mortgage rates rise and fall with changes in inflation expectations, this was good news for mortgage rates.

The recent housing market data showed that activity remains near multi-year highs in many areas. Existing home sales in July increased to the highest level since February 2007. Existing home sales were 10% higher than a year ago. Tight inventory of available homes held back even stronger results.

In July, housing starts rose to the strongest reading since October 2007, and they were 10% higher than a year ago. Building permits, a leading indicator, were 8% higher than a year ago. The August NAHB Housing Index showed that home builder confidence increased to levels last seen in November 2005.

Volatile Week
(Week ending August 28, 2015)

Concerns about slowing global economic growth, particularly in China, caused the U.S. stock market to decline sharply early in the week. However, with stocks at much lower prices, buyers stepped in later in the week, erasing the week's earlier losses. While the magnitude of the moves was relatively small, a similar pattern was seen in mortgage rates. They dropped early in the week and then gave back their improvement later in the week. This relationship between stocks and mortgage rates is common, as investors shift assets between stocks and bonds.

The recent revisions to U.S. Gross Domestic Product, the broadest measure of economic activity, revealed an increase in growth during the second quarter to 3.7% from an original estimate of 2.3%. This follows a much smaller gain of 0.6% during the first quarter. One factor behind the improved performance during the second quarter was a significant increase in inventories. This is unlikely to continue next quarter, however, and early forecasts for the third quarter are for growth below 2.0%.

RISING INTEREST RATES? FOR SOME, THEY'VE ALREADY RISEN

The depths of the financial crisis in December 2008, the Fed has kept interest rates pegged near 0.25%, and it hasn't actually raised rates since July 2006. Now, the Fed has made pretty clear that it intends to begin raising rates—what it calls "policy normalization"—some time this year. So, it's a foregone conclusion that it will happen. The only question remaining was whether it would happen in September or December.

A survey of economists by Reuters published on Thursday (8/13/2015) gave a median 55% chance that the U.S. central bank would raise its short-term lending rate twice this year. Economists put a 60% probability on a September rate hike and an 85% chance that it would move by year-end.

America's stock market plunged dramatically 8/21 marking the biggest loss of the year. The S & P 500 lost approximately 5.7% during the third week of August, the Dow dropped a 1000 points that same week, losing 530 points on that fateful Friday. With this rather dramatic turn of events, I believe that there is little chance of a Fed rate hike in September. The losses amounted to a 10% retreat from its high on May 19, 2015 which technically qualified as the long overdue correction that the market hadn't seen in 77 months.

The reason for the drop wasn't a wholly technical correction. The worries are over the state of the global economy and its slowing. Three factors have fed these worries:

1. Concerns are growing that China's economy is slowing down faster than its government has said. The latest red flag came Friday morning (8/21) from China. The government reported that its manufacturing activity—a key sign of economic performance—hit a 6-year low in July. After the government devalued its currency last week, Wall Street became extra worried about the China slowdown. Although Chinese officials say the economy grew 7% earlier this year, many experts wonder if it's not worse. Few really believe that China is growing at 7%. Officials over there are afraid to say to what degree their economy has really slowed down.

If their stock market is any indication things are far from rosy. Between May and July of this year China's stock markets lost $3.25 trillion in value. It's a bit like what our country went through during the 1920's with 100 million Chinese investors "playing the market", many of them on margin. While the volatility is a major issue in China, few foreign investors have much exposure to these stock markets. The real concern for those outside China is an economic slowdown and wider impact from a fluctuating stock market, rather than the market swings themselves. China's beleaguered stock market endured yet another sell off on Friday, shedding 4% to wipe away the remaining gains from a dramatic market rescue launched by Beijing in early July. The benchmark Shanghai Composite closed just north of 3,500 points, a level that many analysts believe Beijing will try to defend at all costs. Even with a late rush of buying, the index closed down more than 11% for the week.

2. The U.S. economic recovery is sorely missing a healthy rate of inflation; the inflation level continues to be a big worry because it isn't where the Fed would like to see it before hiking interest rates. Tightening monetary policy when inflation is projected to be so low is a step in the wrong direction. One prominent Fed official is against raising rates in September because inflation is so low. The president of the Federal Reserve Bank of Minneapolis, Narayana Kocherlakota, says a rate hike could cause a domino effect of bad outcomes: home prices would fall, job growth would slow and U.S. trade would get hurt.

Consumer prices only rose 0.1% in July compared to June, according to the Labor Department. Over the year, prices only

rose 0.2%--well below the Fed's 2% target. Excluding the volatile components food and energy prices—core inflation—all other prices rose 1.8% annually, the same number from June.

While the job market has been solid and steady this year, inflation is mostly absent. The lackluster inflation numbers are one reason why wages haven't grown recently. Average hourly earnings only went up 2.1% in July, again nowhere close to the Fed's 3.5% wage goal. Even other wage measures the Fed cares about—the employment cost index—has had mediocre results lately.

Fed officials have indicated that they don't need to see wage growth or inflation hit their targets before a rate hike. But, they would like to see them move in the right direction, which they are barely doing.

3. Oil prices dropped below the key $40 level for the first time since 2009. Market commentators offer a range of specific explanations for the sell-off, including a drop in oil prices thanks to a global supply glut (which will affect the profits of energy companies and oil-dependent emerging markets alike), a slowdown in the Chinese economy that is becoming more apparent by the day and a credit squeeze in emerging markets. The decline in the price of oil and other commodities may indicate that there is less demand for such commodities because economies are slowing. The fall in oil reduces energy bills for consumers and companies, but it also hammers the profitability of the many oil and gas companies that have invested heavily during the recent shale boom.

While most economists believed the Fed is likely to raise its key interest rate after its meeting ends on September 17, I believe that that is no longer a possibility and I suspect that the Fed will hold off until December.

For Mortgagors, They Rose on August 10th

As far as the mortgage rates go, the rise already took place on August 10th. For some borrowers, 30-year fixed mortgage rates dipped as low as 3.625% percent in mid-August. For most others, though, rates like those remain elusive because two Government Sponsored Entities (GSEs) namely, Fannie Mae and Freddie Mac, mandated, rate-changes known as Loan-Level Pricing Adjustments.

What Is a Loan Level Pricing Adjustment (LLPA)?

LLPAs were first introduced in April 2008. As government-backed loans were going bad, Fannie Mae and Freddie Mac needed to collect more fees. They didn't want to penalize everyone equally, however, because some loans are inherently more risky than others. Thus, loan-level pricing adjustments were born.

Loan-level pricing adjustments are, literally, adjustments in the "price" of a loan. LLPAs are essentially charges for risk factors such as low credit scores, high loan-to-value (LTV), property type, etc. But, prices determine your mortgage rate. Higher prices mean higher rates. When they were first launched, loan-level pricing adjustments were the government's way of raising prices on "riskier" borrowers without penalizing "safer" ones, much like auto insurers do with drivers who have multiple tickets or accidents—the riskier ones pay higher premiums.

Risk Factors That Lead to Loan-Level Pricing Adjustments

Just as you might accumulate points on your driver’s license, lenders assign points to borrowers for lower FICO scores, higher LTVs, etc. The loan-level pricing adjustment system has more than a dozen "risk characteristics". Most borrowers trigger at least one of them and LLPAs are cumulative. When you trigger 4 different adjustments, you pay all four. Like a driver with multiple speeding tickets or accidents a borrower can accumulate 5 or more points on one transaction.

Here are just a few examples of price-raising loan risk characteristics:

- Having a credit score of 740 or less
- Mortgaging a home as a investment property (because borrowers are less apt to default on a home in which they live as opposed to one they rent out),
- Mortgaging a multi-unit home (i.e. 2-unit, 3-unit, 4-unit) (for the same reason as above)

- **Mortgaging a condo with less than 25% equity**
- **Doing a cash-out mortgage with an LTV over 60% (as opposed to a simple rate and term refinance).**
- **Having more than 4 financed properties**
- **Subordinating a second mortgage**

There's also a "catch-all" LLPA known as the Adverse Market Delivery Charge. It's assigned to all conforming loans and high balance conforming (loan amounts under $625,500)—regardless of credit score or risk.

Good News/Bad News

The good news is that the Adverse Market Delivery Charge has been phased out. The Adverse Market charge was implemented back in 2008 for areas that had been hardest hit by price declines. Now that most areas have recovered from the mortgage melt down between 2008 and 2012 the Federal Housing Finance Authority feels that this charge is no longer justified.

The bad news is that there is no more good news.

LLPA's Are Mandatory and Cumulative

It's important to note that loan-level pricing adjustments are neither discretionary fees, nor "profit" to a bank. The fees or "pricing hits" are assessed by Fannie Mae and Freddie Mac because loans with these risk characteristics have been found to correlate with additional percentages of loan default. So, it comes down to risk versus reward. Lenders require commensurately higher fees to offset the increased risk.

Check out the table below, which shows a variety of LLPA hits for various combinations of a credit score and LTV. Note that for a 95% LTV loan, there is a 3.250% hit for borrowers with credit scores of 620 but a hit of only .250% for borrowers with credit scores better than 740. Assuming all other factors are the same, this means that the borrower with a qualifying credit score of 620 will have to pay a charge of 3% more of the loan amount to get the same interest rate as the borrower with a 740 credit score.

Table 2: All Eligible Mortgages (excluding MCM) – LLPA by Credit Score/LTV Ratio

	LTV Range							
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
Representative Credit Score	Applicable for all mortgages with terms greater than 15 years For whole loans purchased on or before August 31, 2015, or loans delivered into MBS pools with issue dates of August 1, 2015 or earlier							
≥ 740	-0.250%	0.000%	0.000%	0.250%	0.250%	0.250%	0.250%	0.250%
720 – 739	-0.250%	0.000%	0.250%	0.500%	0.500%	0.500%	0.500%	0.500%
700 – 719	-0.250%	0.500%	0.750%	1.000%	1.000%	1.000%	1.000%	1.000%
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.000%
660 – 679	0.000%	1.000%	2.000%	2.500%	2.750%	2.250%	2.250%	1.750%
640 – 659	0.500%	1.250%	2.500%	3.000%	3.250%	2.750%	2.750%	2.250%
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.000%
< 620 (1)	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.250%
Representative Credit Score	Applicable for all mortgages with terms greater than 15 years For whole loans purchased on or after September 1, 2015, or loans delivered into MBS pools with issue dates on or after September 1, 2015							
≥ 740	**0.000%**	**0.250%**	**0.250%**	**0.500%**	0.250%	0.250%	0.250%	**0.750%**
720 – 739	**0.000%**	**0.250%**	**0.500%**	**0.750%**	0.500%	0.500%	0.500%	**1.000%**
700 – 719	**0.000%**	0.500%	**1.000%**	**1.250%**	1.000%	1.000%	1.000%	**1.500%**
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	**1.500%**
660 – 679	0.000%	1.000%	**2.250%**	**2.750%**	2.750%	2.250%	2.250%	**2.250%**
640 – 659	0.500%	1.250%	**2.750%**	3.000%	3.250%	2.750%	2.750%	**2.750%**
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	**3.500%**
< 620 (1)	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	**3.750%**

When you trigger these hits you pay the fees. Period. However, you can choose how you your LLPAs are paid. Your first option is to pay your LLPAs as a traditional "closing cost"; a one-time payment made at closing. For example, if your loan size is $400,000, and your LLPAs add up to 1 percent, your LLPA closing cost would be $4,000. The alternative is to build the LLPAs into your mortgage rate. In general, for each 1.000 percent in adjustments, your mortgage rate rises 0.250%.

Though LLPAs act like fees, they usually are not passed on to the end borrower as additional closing costs on the loan. Lenders typically adjust the base rate upward to cover the LLPAs they offer, so the end result is that LLPA hits usually result in higher rates instead of higher fees.

Increases for Very Good Borrowers and High LTVs

In the second Table 2 (for loans purchased on or after September 1, 2015) note the price hikes (in bold font) that went into effect on August 10, 2015. There were .25% pricing hits for loans with LTVs under 80% (with FICOs above 700 and a few with FICOs as low as 640. Loans with LTVs 95% and above saw .5% price increases.

Why LLPAs Matter to Real Estate Investors

Now, check out the chart below, which shows the LLPA hits for investment property (outlined in red). As you can see, the jumps are steep, and they're a standard charge applied regardless of credit score. In the past if you were willing to put down 25% (which means a 75% LTV), the LLPA hit was 1.75%. Now, it's 2.125%. With only 15% down the price has jumped from 3.75% to 4.125%, (not to mention you'll pay mortgage insurance because the LTV is over 80%).

Table 3: All Eligible Mortgages (excluding MCM unless otherwise noted) – LLPA by Product Feature

PRODUCT FEATURE	LTV Range							
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
Investment property	For whole loans purchased on or before August 31, 2015, or loans delivered into MBS pools with issue dates of August 1, 2015 or earlier							
	1.750%	1.750%	1.750%	3.000%	3.750%	N/A	N/A	N/A
	For whole loans purchased on or after September 1, 2015, or loans delivered into MBS pools with issue dates on or after September 1, 2015							
	2.125%	**2.125%**	**2.125%**	**3.375%**	**4.125%**	N/A	N/A	N/A

It's obvious that Fannie views investment properties as riskier than owner-occupied properties, particularly those with little equity. These LLPA hits are the reason investment property rates tend to be significantly higher than owner-occupied rates.

You Will Now Pay More for Cash-Out and with Lower LTVs

With a FICO score above 740 a borrower will now pay about .375% more if they have an LTV of 75% and want to refinance to obtain cash out. See the changes (in bold face type) in the bottom Cash Out Refinance table. On Aug.10th the rate increased from .25% to .625%. And for a borrower with a 620 FICO they would pay a staggering 3.125% for this privilege! Further, cash-out financing for properties with LTVs above 80% is no longer available.

Table 3: All Eligible Mortgages (excluding MCM unless otherwise noted) – LLPA by Product Feature

PRODUCT FEATURE	LTV Range							
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
Cash-out refinance[3] Representative Credit Score	For whole loans purchased on or before August 31, 2015, or loans delivered into MBS pools with issue dates of August 1, 2015 or earlier[3]							
≥ 740	0.000%	0.250%	0.250%	0.500%	0.625%	N/A	N/A	N/A
720 – 739	0.000%	0.625%	0.625%	0.750%	1.500%	N/A	N/A	N/A
700 – 719	0.000%	0.625%	0.625%	0.750%	1.500%	N/A	N/A	N/A
680 – 699	0.000%	0.750%	0.750%	1.375%	2.500%	N/A	N/A	N/A
660 – 679	0.250%	0.750%	0.750%	1.500%	2.500%	N/A	N/A	N/A
640 – 659	0.250%	1.250%	1.250%	2.250%	3.000%	N/A	N/A	N/A
620 – 639	0.250%	1.250%	1.250%	2.750%	3.000%	N/A	N/A	N/A
< 620[1]	1.250%	2.250%	2.250%	2.750%	3.000%	N/A	N/A	N/A
Cash-out refinance Representative Credit Score	For whole loans purchased on or after September 1, 2015, or loans delivered into MBS pools with issue dates on or after September 1, 2015							
≥ 740	**0.375%**	**0.625%**	**0.625%**	**0.875%**	**N/A**	N/A	N/A	N/A
720 – 739	**0.375%**	**1.000%**	**1.000%**	**1.125%**	**N/A**	N/A	N/A	N/A
700 – 719	**0.375%**	**1.000%**	**1.000%**	**1.125%**	**N/A**	N/A	N/A	N/A
680 – 699	**0.375%**	**1.125%**	**1.125%**	**1.750%**	**N/A**	N/A	N/A	N/A
660 – 679	**0.625%**	**1.125%**	**1.125%**	**1.875%**	**N/A**	N/A	N/A	N/A
640 – 659	**0.625%**	**1.625%**	**1.625%**	**2.625%**	**N/A**	N/A	N/A	N/A
620 – 639	**0.625%**	**1.625%**	**1.625%**	**3.125%**	**N/A**	N/A	N/A	N/A
< 620[1]	**1.625%**	**2.625%**	**2.625%**	**3.125%**	**N/A**	N/A	N/A	N/A

LLPA's Are Cumulative

So, if we combined a couple of risk characteristics into one transaction: A borrower with a FICO score of 620 with an LTV between 80 to 85% there would be a LLPA of 3% AND if the property were an investment property there would be another 4.125% LLPA, and when added together, such would total to 7.125% in additional fees.

Is There Any Way to Avoid LLPAS?

Yes, there is. The best way is to refinance when your Loan To Value (LTV) is under 60%. Also, loan-level pricing adjustments are specific to conforming mortgages. This means that FHA mortgages, VA mortgages, and USDA mortgages are LLPA-exempt. But you will have to pay Upfront Mortgage insurance with FHAs (1.75%) plus monthly mortgage insurance for the life of the loan. With VAs, there is a Funding Fees of 2.15% for first time use. Bottom line: You're gonna pay one way or the other. So much depends on how the loan is structured to minimize the costs to the borrower.

Hi/Low Conclusion

If you haven't noticed already, LLPA pricing changes have significantly impact mortgage interest rates. If your credit scores are in the mid to high 600 range, you're going to get hit with some significant LLPAs unless you owe less than 60% of the value of the property. This is why it's important to keep your credit scores as high as possible–-ideally above 740 and your LTVs low—like under 60%.

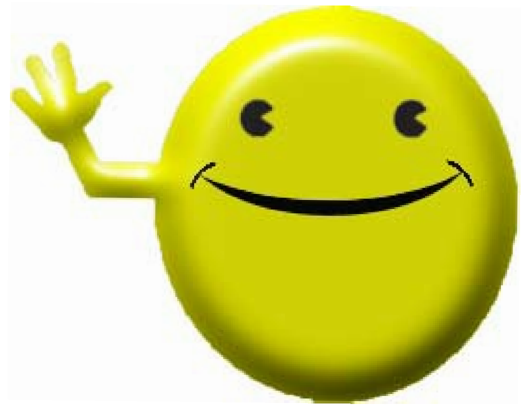
RATE SUMMARY %

Despite much volatility, this past month rates ended nearly unchanged↕

***Conforming programs—1/8th better for a few programs↓**
***Jumbos—Nil change, except for 30 yr. fixed which was 1/8th cheaper ↔**
***Governments—Nil 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.

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