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mortgagestraightTalk.com

Tel 760 726 4600

Cel 760 717 8584

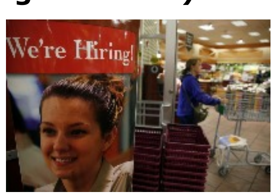
Fax 760 639 0785

Rod@mortgagestraightTalk.com

IN THIS MONTH'S ISSUE

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Strong Job Gains (Week ending 3-4-2016)



Friday's Employment report showed that job gains remained strong. Against a consensus forecast of 190K, the economy added 242K jobs in February. Upward revisions to prior months added another 30K. The economy has added an average of 228K jobs per month over the last three months. The Unemployment Rate remained at 4.9%, as expected.

Average hourly earnings, an indicator of wage growth, declined slightly from January, well below the consensus for

BEST BUYS THIS MONTH

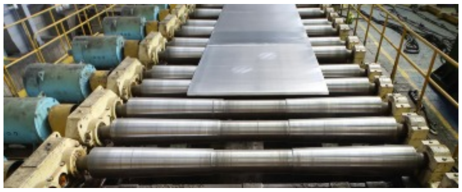
- Conforming 30 yr. Fixed @ 3.375%
- High Balance Conforming 30 yr. Fixed @ 3.500%
- High Balance Conforming 15 yr. Fixed @ 2.250%
- Jumbo 30 yr. Fixed @ 3.750%
- Jumbo 5/1 ARM @ 2.875%
- FHA 15 yr. Conforming Fixed @ 2.500%
- VA 15 yr. Conforming Fixed @ 2.500%

Conforming to $417,000 < High Balance Conforming $417,001 to $580,750 < 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**

a modest increase. After a modest spike in wages in January, the decline in February was good news for mortgage rates and partially offset the negative effect of the strong job gains.



The February ISM national manufacturing survey released on Tuesday indicated that things may be turning a little more positive for this sector. The survey rose to the best level in five months. For mortgage rates, one component of the survey was concerning. The prices paid component measures the change in the prices that manufacturers charge. In February, the survey on prices paid revealed a much higher reading than was expected, hinting at rising inflation. This follows significant increases in the recent broad-based monthly inflation measures. Mortgage rates are highly influenced by the outlook for future inflation. As inflation expectations rise, so do mortgage rates.

ECB Adds Stimulus (Week ending 3-11-2016)

The European Central Bank (ECB) added to its stimulus program to help boost economic growth and raise inflation. The actions included cutting key interest rates and increasing the size of its asset purchase program to 80 billion euros each month from 60 billion previously. Increased demand for bonds from the ECB helps keep down yields around the world, including U.S. mortgage-backed securities (MBS). These measures were essentially in line with investor expectations, however, so their effect on mortgage rates had already been factored in.

The ECB also announced other changes designed to help the banking sector, and these were unexpected. These measures made riskier assets such as stocks more appealing to investors. When investors show a preference for adding risk, they often reduce their exposure to safer assets, including MBS, which is not good for mortgage rates.

While recent readings have shown that inflation is rising, one area has continued to exert downward pressure. The cost of imported goods dropped in February for the eighth straight month. A big reason for this has been the decline in the price of oil. Even excluding oil, the cost of other imported goods has been dropping. Lower prices for imported goods reduce inflation, which is positive for mortgage rates.

Fed Changes Guidance (Week ending 3-18-2016)

As expected, the Fed did not change the federal funds rate. However, the statement contained guidance which reduced the expected number of rate hikes in 2016 from four to two . Reasons for this included a downgraded outlook for U.S. economic growth and inflation, as well as concerns about the pace of global economic growth. The statement was good news for mortgage rates, as this guidance pushes tighter monetary policy further into the future, including the expected timeline for the Fed to begin to reduce its large holdings of mortgage-backed securities (MBS) and Treasuries. The added demand for MBS from the Fed helps to keep mortgage rates low.

Fed officials have stated that they would like to see inflation rise to their target level of 2.0%. After holding steady for most of 2015, core inflation has increased pretty quickly over the last few months. In February, the core consumer price index (CPI), a widely followed inflation measure, unexpectedly rose to an annual rate of 2.3%, the highest level since May 2012. Core inflation excludes the volatile food and energy components.

However, Fed officials prefer a different monthly indicator, the core PCE price index. This index measures a broader scope of prices and rebalances the category weightings more frequently than CPI. The most recent reading for core PCE showed a 1.7% annual rate in January. The results for February will be released on March 28. Core PCE has generally run about half a point lower than core CPI.

Fed Officials Split (Week ending 3-25-2016)

At the Fed meeting on March 16, nine Fed officials voted in favor of holding the federal funds rate steady and just one supported a rate hike. Fed Chair Yellen suggested that the Fed should proceed cautiously in tightening monetary policy to see the effect of overseas weakness on the U.S. economy.

Since the meeting, however, several Fed officials have supported tighter monetary policy, sending a mixed message to investors. These officials feel that the performance of the U.S. economy may justify a rate hike as soon as the next Fed meeting on April 27. Investors will be closely

monitoring comments from other Fed officials to determine how much support there is for these more hawkish views.

The headline numbers for February home sales released this week were mixed. Sales of existing homes fell 7% from January, while sales of newly built homes showed an increase of 2%. The details show that the fall in existing home sales was from an elevated January level, and the rise of new home sales was from an unusually low level in January.

Both measures have been volatile lately. An average of home sales over a multiple month period provides a clearer picture of the underlying trend, and the three-month average has shown steady improvement over the last few months.

INTEREST ONLY LOANS ARE BACK

Absent from the market since 2013, Interest Only (I/O) loans are back. The reason that they were curtailed was because borrowers found that they were disadvantageous to own in a declining real estate market because as the property's value fell, so did the likelihood of one's being able to refinance, even at a lower interest rate. As home values declined during the Great Recession, many I/O borrowers found themselves upside down because their homes had declined in value, but their principal balance had not. So, they owed in many instances more than their property was worth. In some instances, homeowners lost their homes and lenders were forced to foreclose. It was bad for both parties and consequently these types of loans were withdrawn from the marketplace.

As the saying goes, "but that was then and this is now." The reason that they are being offered anew is because the times have changed and I/Os offer two leverage advantages: 1) they have lower payments than amortized loans because there is no principal being paid down, during the first, 3, 5, 7, or 10 years, depending on the program chosen and 2) because of the lower payment it allows borrowers to qualify for a larger loan and more house than they might otherwise be able to.

I/Os can be utilized for either purchases or refinances. Eligible properties include Single Family residences (SFRs), Planned Unit Developments (PUDs), condominiums, and 1-2 units. This applies to units that are owner occupied, 2nd homes, and investment properties.

Generally speaking the loan amounts range anywhere from $250K to $2 million.

When it comes to qualifying for these programs, borrowers need to have better than average credit with FICOs scores above 700. Because these programs are interest only for the first 10 years, they are technically all Adjustable Rate Mortgages (ARMS). After 10 years, they become amortizing loans such that the loan amount will be retired by year 30. For this reason, lenders require that borrowers qualify at rates 2%, above the start rate. So, someone taking out an I/O with a note rate of 3.25% will have to qualify based on their income at 5.25%. For larger amounts, say in excess of $1.5M, a lender may require a FICO score above 720. Others, have more elaborate qualifications that pertain to residual income and family size.

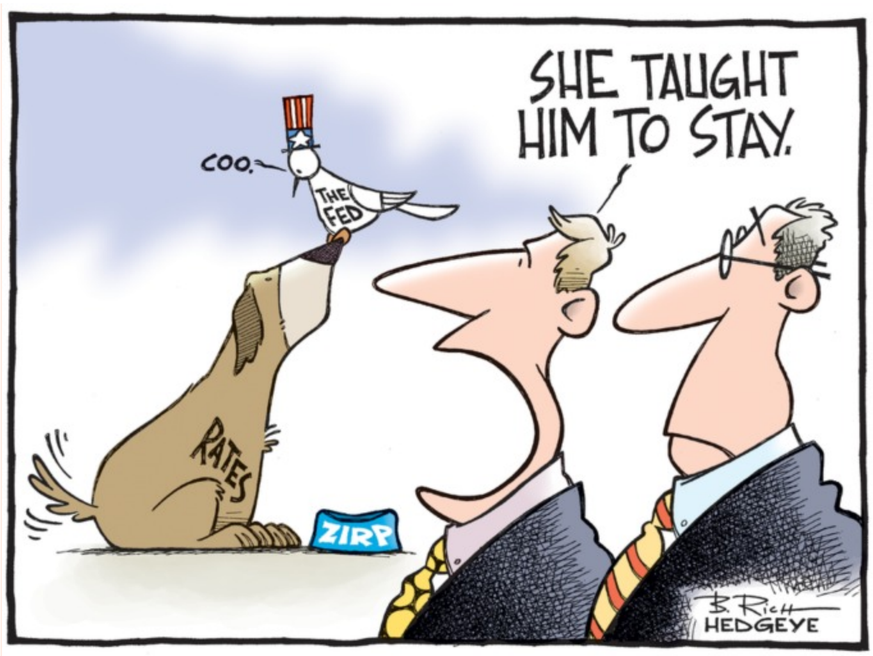
As mentioned a moment ago, I/O loans are ARMs and with any ARM loan there are adjustment rate caps. With ARMs their interest rates are fixed for differing periods of time e.g., 5, 7, & 10 years. When that period is up they adjust according to the index they're tied to. In order to make ARMs more appealing to borrowers, and to provide some consumer protection, today's ARMs have maximums or "caps" on the amount that rates can change. The adjustment cap notation is often expressed by three consecutive numbers, like 5/2/5. The first number refers to the maximum interest rate change during the first adjustment period, the second number, to the maximum interest rate change during subsequent adjustment periods and the third number refers to the maximum interest rate change over the life of the loan. Higher loan amounts typically have lower caps like 2/2/5, but again this depends on the particular lender.

I/Os are non-agency loans or portfolio loans which mean that they do not have to conform to Fannie/Freddie guidelines. As a result, their Loan to Value (LTV) and Debt to Income (DTI) ratios vary

from lender to lender. Permissible LTVs may range anywhere from 55% to 80%, depending on one's FICO score, and property type but most lenders want borrowers' Debt To Income (DTI) ratio to remain under 42%. A few lenders, however, will go as high as 50% on DTI.

Interest Only loans are back, in part, because they have the advantages of both affordability and being the lowest payment program of any loan because there is nothing being paid toward principal reduction. They are terrific in rising real estate markets, but should be avoided in declining times. Because of this borrowers have made the qualifying standards more stringent. The Interest Only period applies to only the first 10 years of a 30 year note, something borrowers utilizing them need to keep in mind.

FEDS BACK AWAY FROM RATE INCREASE



Global fears are creeping up on the Federal Reserve. On March 16th the Fed said it is not going to raise its key interest rate as expected. It also cut its forecast for U.S. economic growth and inflation, and significantly lowered its estimate for the number of rate hikes in 2016.

The Fed's committee, led by Chair Janet Yellen, had estimated in December that the economy would grow 2.4% this year and it would raise rates four times. Then stock markets became volatile, oil prices fell and fears of a U.S. recession magnified in January and early February.

Now the Fed is dialing back. Yellen and other Fed leaders are only calling for about two rate hikes this year. The Fed also dimmed its economic growth outlook for the year to 2.2%, compared with 2.4% previously. Those cuts reflect concerns about how much the slowdown is impacting American growth. "Since the turn of the year, concerns about global economic prospects have led to increased market volatility and tighter financial conditions in the United States," Yellen said.

The Fed emphasized that any future rate increases will likely be "gradual" moves. She emphasized that "policy is not on a pre-set course" and will change because the "economy will surely evolve in unexpected ways." Yellen also said that the rate could be reduced to zero in the event of any shock to the financial system.

Despite headwinds from oil, stocks and abroad, some parts of the U.S. economy continue to perform well. Unemployment fell in January to 4.9% and inflation has shown signs of life recently after being largely dormant in recent years. In its statement, the Fed's committee noted the job market's continued improvement, but noted that inflation remains well below the central bank's target of 2%. Inflation had recently inched up to 1.3%. However, the Fed's committee does not appear confident that inflation is gaining enough momentum. It cut its forecast for inflation this year to 1.2% from 1.6%.

Since December, Wall Street has bet there would only be two rate hikes this year, and at one point in February in the midst of market turmoil, investors were calling for no rate hikes. The Fed's plans now appear to be lining up with investors' expectations.

STILL STRONG: U.S. ECONOMY ADDS 242,000 JOBS

American workers are still the bright spot in the nation's economy. The United States added a healthy 242,000 jobs in February, far better than its gains of 172,000 in January. Economists had predicted a gain of 190,000 jobs in February. Unemployment stayed at 4.9% last month, the lowest mark since February 2008. It's at a level many experts consider to be "full employment."

The job market's momentum is cooling concerns from earlier this year that the U.S. economy would fall into recession in 2016. February's gains are the latest sign of good news: retail sales were solid in January and growth appears to be picking up.

More good news: job gains in December and January were revised up by a combined 30,000 jobs. And more Americans are getting on the band wagon: the participation rate -- an indicator of how many people are working or looking for work -- increased in February. Participation has trended upward since September even though it's near historical lows.

Friday's job news wasn't all good. The sectors with the biggest gains -- retail, restaurants and social assistance—are considered to be low-paying jobs. And the energy sector, battered by low oil prices, cut nearly 20,000 jobs in February.

Wage growth also disappointed in February. Wages only grew 2.2% in February compared to a year ago. That's below the past gains of 2.5% or more in previous months. The Federal Reserve wants to see wages grow move closer to 3.5%. Despite those disappointments, overall progress in the job market is a sign of the U.S. economy's resilience in the face of a global slowdown.

Other parts of the world -- from China and India to Europe and Latin America -- are suffering from slowing growth. The U.S. economy isn't immune to the headwinds from abroad: the U.S. manufacturing sector is in a 5-month recession.

Still, the economy has shown signs of strength early in 2016 amid many red flags from overseas and the negative talk from U.S. presidential contenders.

RATE SUMMARY

In the past month, rates increased modestly

*Conforming programs — 1/8th to a ¼ higher↑
*Jumbos — 1/8th to a ¼ higher↑
*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

MARRIAGE IS LIKE A DECK OF CARDS:

IN THE BEGINNING, ALL YOU NEED IS TWO HEARTS AND A DIAMOND.

BY THE END, YOU WISH YOU HAD A CLUB AND A SPADE.