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MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Stocks and Rates Improve

(Week ending 7-1-2016)

Following the British vote on June 23 to exit (Brexit), it has been a volatile period for financial markets. For the first couple of days after the vote, both U.S. stocks and U.S. mortgage rates declined significantly. Later in the week, however, the stock market recovered nearly all of its losses, while mortgage rates moved even lower. Typically, an event such as Brexit which adds a high level of uncertainty for investors causes a shift to safer assets. Then, when the consequences become clearer, there is a reversal as investors become more willing to again hold riskier assets. What makes the market reaction to Brexit unusual is that mortgage rates continued to improve even as investors added riskier assets back to their portfolios.

One reason that bonds have continued to improve while stocks have rallied is that investors expect looser monetary

BEST BUYS THIS MONTH

- Conforming 15 yr. Fixed @ 2.250%
- High Balance Conforming 15 yr. Fixed @ 2.500%
- Jumbo 30 yr. Fixed @ 3.625%
- Jumbo 5/1 ARM @ 2.625%
- FHA 15 yr. Conforming Fixed @ 2.250%
- VA 15 yr. Conforming Fixed @ 2. 250%
- FHA High Balance 30 yr. Conforming Fixed @ 3.000%
- VA High Balance 30 yr. Conforming Fixed @ 3.125%

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

I ALSO DO:

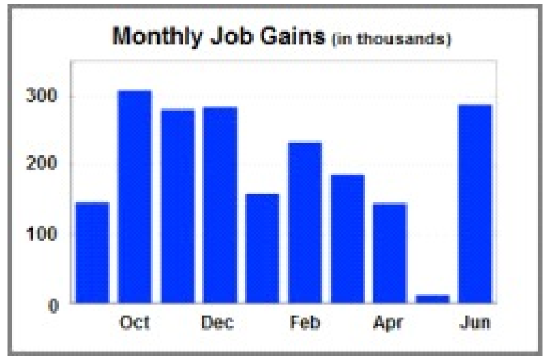
- COMMERCIAL LOANS (more than 4 units)
- "HARD MONEY" LOANS
- REVERSE MORTGAGES
- FOREIGN NATIONALS
- DELAYED FINANCING
- STATED INCOME LOANS
- MANUFACTURED HOMES
- ASSET DEPLETION LOANS

policy from global central banks in the wake of the Brexit vote. On Thursday, officials from the Bank of England said that further stimulus likely will be needed to smooth the transition. Many investors also expect that the European Central Bank (ECB) will add stimulus to attempt to boost economic growth. In addition, Brexit likely will cause the U.S. Fed to wait longer before raising the federal funds rate. Looser monetary policy has been viewed as good for both stocks and bonds.

While the services sector in the U.S. has held up well, the manufacturing sector has struggled over the past couple of years. Headwinds have come from a stronger dollar and economic weakness overseas. The manufacturing sector has shown steady improvement so far this year, however, the most recent reading for the ISM national manufacturing index surpassed expectations and rose to the highest level in sixteen months.

Strong Job Gains (Week ending 7-8-2016)

In May, the economy added just 11,000 jobs, the lowest level since September 2010. The June report released on Friday reminded investors not to read too much into the results for just one month. Against a consensus forecast of 180,000, the economy added 287,000 jobs in June, the highest level since October 2015.



In other signs of strength, the unemployment rate in June increased from 4.7% to 4.9%. In this case, this is considered a good thing due to the large increase in the number of people who felt the confidence to begin looking for a job in June. Many had not yet found employment, so they were counted in the workforce as unemployed. Average hourly earnings, an indicator of wage growth, were 2.6% higher than a year ago, which was the fastest annual rate of increase since July 2009.

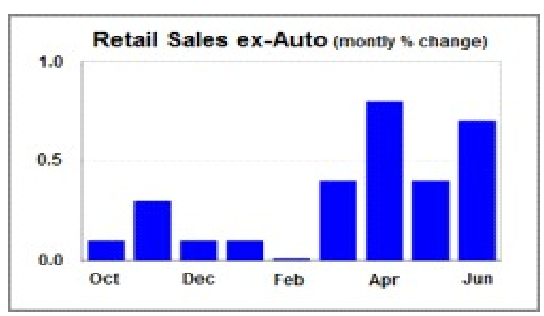
Due to its effect on expectations for future inflation, stronger than expected employment data generally is viewed as bad for mortgage rates. After the release of the data on Friday, however, the expected reaction was not seen. One reason is that Brexit related demand from global investors for safer assets remains high. Added demand for government guaranteed U.S. bonds, including mortgage-backed securities (MBS), has helped push mortgage rates near record lows.

Stocks Rally, Rates Rise (Week ending 7-15-2016)

With long-term bond yields at or near record low levels following the Brexit vote on June 23, investors decided this week that stocks had become relatively more attractive than bonds. Investors shifted assets from bonds to stocks, pushing the Dow to a record high, and mortgage-backed securities (MBS) prices lower. Since mortgage rates are set based on MBS prices, rates moved higher. Mortgage rates are moderately more attractive than they were before the Brexit vote.

The recent increase in mortgage rates has occurred despite little change in the outlook of investors for future Fed policy. Numerous Fed officials made speeches over the past week, and the central theme was that federal funds rate hikes will take place at a very gradual pace. In futures markets, investors have priced in less than a fifty percent chance of a rate hike during the remainder of 2016.

After a slow start to the year, retail sales posted a fourth straight month of solid gains on Friday. Retail sales excluding the volatile auto component surpassed expectations with an increase of 0.7% in June. Consumer spending accounts for about 70% of economic output in the U.S., and the retail sales data is a key indicator.



Partly due to the pickup in consumer spending, second quarter Gross Domestic Product (GDP), the broadest measure of economic growth, is expected to more than double the 1.1% level seen during the first quarter.

ECB Holds Steady (Week ending 7-22-2016)

Some investors were disappointed by Thursday's decision by the European Central Bank (ECB) to make no change in monetary policy. To help ease the impact of the June 23 Brexit vote, some wanted to see the ECB provide additional stimulus. Looser monetary policy from global central banks with bond purchase programs has been viewed as positive for mortgage rates in recent years. The reaction on Thursday morning to the lack of additional stimulus was an increase in mortgage rates. Comments from ECB officials left the door open for looser policy at the next meeting in September, however, the overall impact of this meeting was small.

June was another good month for the housing market. Sales of existing homes rose in June for the fourth month in a row to an annualized rate of 5.6 million units, which was the best level since February 2007. This was achieved despite a very low supply of homes available for sale. There was just a 4.6-month supply in June. A healthy balance between buyers and sellers is considered to be a little over a 6.0-month supply.

Home builders are certainly aware of the lack of supply as they have ramped up construction.

The Commerce Department reported that there were more houses under construction at the end of June than at any time in the last eight years.

GDP Falls Short (Week ending 7-29-2016)

As expected, the Fed meeting concluded with no change in the federal funds rate. The Fed statement modestly upgraded its assessment of the U.S. Economy. In particular, the labor market has "strengthened" and consumer spending has been "growing strongly." However, the overall tone of the statement was less hawkish than investors had expected, and mortgage rates improved a little after its release.

Mortgage rates also improved following the release of Friday's disappointing GDP data. Second quarter gross domestic product (GDP), the broadest measure of economic growth, grew at a rate of just 1.2% in the second quarter, far below the consensus of 2.6%. This was the third straight quarter of growth below 2.0%. Consumer spending was strong during the second quarter, but business investment was weak.

Recent reports showed that the housing sector remained a bright spot for the U.S. Economy. Similar to the results for previously owned homes, sales of new homes rose in June to the best levels in about eight years. The pending home sales report showed a small increase in June. This report measures contracts signed for the purchase of previously owned homes. Once again, these two reports likely would have been even better except for a low supply of homes available for sale.

ODDS 'N' ENDS 2.0

As I was casting about for what to write on this month, I thought why not address a few minor topics, again, that garner some of the most frequently asked questions. So, this month's topic is a grab bag of sorts.

With the recent vote on the Brexit, mortgage rates became slightly more attractive as investors flocked to the security of U.S. Treasuries and mortgage-backed securities. Naturally, people whose rate had already been locked became curious about FLOAT DOWNS.

A FLOAT DOWN is a mortgage rate lock with the OPTION to take advantage of interest rate decreases despite already being locked in at an earlier date. Typically, the float down option is negotiated BEFORE the rate is locked. Thus, if rates go down, a borrower has the option to go with the lower rate.

Because lenders have to buy forward contracts in the credit markets, float downs increase the lender's risk, so the price of a float down is higher than the price of a lock without a float down. It's also important to note that not all lenders offer float downs, but of those that do, many simply deduct it from the amount of lender credit offered at a particular rate. The cost of a float-down will range from lender to lender, and may run anywhere from .375% to .625% of the loan amount (or higher) to take advantage of current pricing. So for higher loan amounts, it could be a pricey option.

As an example, let's say a borrower wanted to lock his rate @ 3.875% WITH a float down option on a 30 year fixed mortgage on a 30-day lock. Further, let's say he was receiving lender credit of 1 point and the cost of the option was 62.5 basis points. (A basis point is 1/100th of a percent) now, let's say a week later that same 30 yr fixed rate mortgage is being offered at 3.625%. If he wanted to exercise the option and get the lower rate of 3.625% he would now only have lender credit of 0.375% = (1-.625).

Also, lenders generally have restrictions on when you can execute a float-down, how low the rate can/must drop. They do not automatically apply them; it's the borrower's responsibility to notify the lender that the option is being exercised. Lenders usually only allow the borrower to float the rate down ONCE and it must occur before the lock expires.

Note: If, however, AFTER the borrower has already locked the rate and she still wants a lower rate (regardless of whether rates have dropped or not) then it would be necessary to do a BUY DOWN to get a lower rate. To re-iterate, Float Downs are negotiated PRIOR to locking the rate and Buy Downs are the only options available AFTER the rate has been locked.

Another topic that is a frequent source of questions is GIFT FUNDS. When buying a first home, some borrowers need help coming up with the down payment. Naturally, family members are often the first resource of assistance. Mom, pop, grandparents, brothers, sister, aunts and uncles—are all acceptable. Gifts from non-family members are generally not acceptable unless you can document a close past relationship. In other words, your friend or coworker is not generally acceptable.

If you do get help from family member, lenders require this to come in the form of a "gift." If you're really borrowing the money from your family member, intending to pay it back later—the lender doesn't want to know about it. With rare exceptions, you are not allowed to borrow money to come up with your down payment.

Lenders will supply you with a form called a "gift letter." The gift letter states the relationship between the parties, the address of the purchased property, the amount of the gift, and sometimes the source of the funds used to make the gift. The gift letter also clearly states that the funds are a gift and not required to be repaid. You and the person providing the gift will have to sign the letter. If there is more than one check or wire, a gift letter will need to be provided to correspond to each gift. While gifts are gratis, lenders require that borrowers put forth some effort in documenting the funds, such as providing evidence that funds from the donor to the borrower have cleared the borrower's account.

- If the gift is received as a check, it is necessary to show borrower's bank statement showing the deposited check in the borrower's account
- If the gift is received as a wire, it is necessary to show the borrower's bank statement showing the wire to the borrower's account or receipt from escrow for the wire

With most lenders, the donor will have to also provide evidence that they have the ability to make the gift. This can be in the form of a bank or stock statement to show they have the funds available. You should also make a copy of the check used to make the gift and keep a copy of the deposit receipt when you deposit the gift funds into your bank account or escrow. One way to avoid the donor's ability condition is to have gift funds deposited or wired before loan docs.

FHA/VA purchases involving gift letters require a little more documentation: The documentation requirements above are the same, but in addition it is necessary to show the donor's ability to gift funds to the borrower by providing:

1. 1 month's bank statement: unaltered and ALL pages (FHA Policy)
2. Sourcing of large deposit(s) on donor's bank statement may be required (FHA Policy)

The VA is a little more lenient regarding the donor's ability to gift funds to a borrower. It only requires:

1. Evidence that the funds from the donor have cleared the borrower's account
2. Sourcing of very LARGE deposit may be required on a case by case basis.

Gifts from domestic partners are allowed. However, when a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

1. A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
2. Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples, include but are not limited to a copy of a driver's license, a bill or a bank statement.

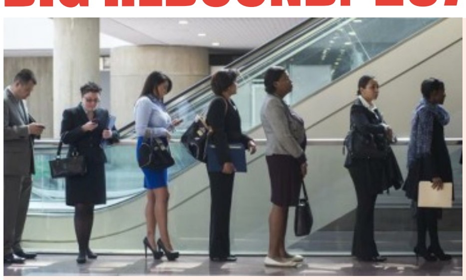
Not allowed: Gift funds are not acceptable for investment property transactions. Gift funds may not be used to meet reserve requirements. In all cases, the donor may not be or have any affiliation with the builder, the developer, the real estate agent, or any other interested party to the transaction.

Last in this mélange of topics are **DEROGATORY WAIT PERIODS**. These are situations where a borrower has had an adverse credit event like a mortgage late, a short sale, a foreclosure, a deed in lieu, a loan modification or a bankruptcy Chapter 7 or Chapter 13. There are different wait periods for the various events and the type of loan and amount that one is applying for whether it is a conventional loan, an FHA, a VA, a USDA, a jumbo loan and whether there were extenuating circumstances like a job loss or catastrophic illness. The table below shows the how much time must elapse before one becomes eligible. Where there were extenuating circumstances the wait period is reduced to 2 or 3 years depending on the nature of the event.

Wait Period In Years	Mortgage Lates	Foreclosure	Mortgage Short Sale/ Charge Off	BK 7	BK 13	Deed In Lieu	Loan Modification
FNMA	NO 60 DAY LATES IN PAST 12 MONTHS	7	4	4	2 discharge 4 dismissal	4	All REO - min 2 years; all payments must be on time after loan modification
FHLMC	NO 60 DAY LATES IN PAST 12 MONTHS	7	4	4	2 discharge 4 dismissal	4	All REO - min 2 years; all payments must be on time after loan modification
FHA		3	3	2	1 yr. w/ on time payments	3	All REO - all payments must be made on time after the loan modification
VA		2	2	2	1 yr. w/ on time payments	2	All REO - all payments must be made on time after the loan modification
USDA		3	3	3	3	3	All REO - all payments must be made on time after the loan modification
JUMBO	No 30 day lates in past 2 years	7	4	7	7	7	7

KEY: FNMA - Fannie Mae; FHLMC - Freddie Mac; USDA - U.S. Dept of Agriculture; REO - Real Estate Owned

BIG REBOUND: 287,000 JOBS ADDED IN JUNE



Phew. American businesses are hiring again. The U.S. added 287,000 new jobs in June, according to the Labor Department report released on 7-8. It's a massive rebound from May when the U.S. added a mere 11,000 jobs. Unemployment rose slightly in June to 4.9% (up from 4.7% in May). That's actually a good sign because it means more Americans are looking for work again.

The big boost in hiring in June alleviates fears that the U.S. economy is sputtering. It's especially welcome news after the Brexit shock that rattled markets.

What it means for the economy

Perhaps the best news from the jobs report is that wages are finally showing signs of life. Wage growth picked up to 2.6%. That's still below the 3.5% or so the Fed would like to see, but it's a healthy bump from earlier in the year when wage growth was barely above 2%. Finding "good paying jobs" has become a key issue on the 2016 campaign trail.

While the June jobs figure is eyebrow raising in a good way, it's unlikely to be enough to sway the Federal Reserve to raise interest rates at its July meeting. Economists predict one rate hike in 2016. It's possible that could come in September, but more likely in December.

The bigger picture on jobs

Many believe America is at—or near—full employment, but the overall share of Americans working is at its lowest point since the 1970s. The decline in the labor force is partly explained by Baby Boomers retiring, but there's also concern that some people just gave up looking for jobs after the Great Recession.

America added millions of jobs in 2014 and 2015 in the biggest hiring spree since 1999. The U.S. was routinely adding well over 200,000 jobs a month. That rapid pace of job gains has slowed this year. While the June figure was big, the three-month average for job gains is only 147,000.

The U.S. economy is only expected to grow about 2% this year, which is below the historical average and a slowdown from the 2.4% growth last year.

RATE SUMMARY

In the past month:
***Conforming programs were an 1/8th cheaper ↓**
***Jumbos - were unchanged down an 1/8th ↓**
***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.

MORTGAGE MIRTH

I DIDN'T SAY IT
WAS YOUR FAULT,
I SAID I WAS BLAMING YOU.

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