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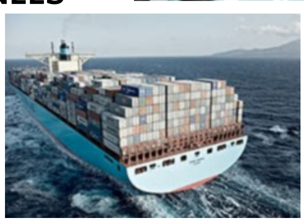
IN THIS MONTH'S ISSUE



MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Job Gains Surge
(Week ending August 5, 2016)

Mortgage rates increased following the release of Friday's upside surprise in the important monthly Employment report. Against a consensus forecast of 180K, the economy added 255K jobs in July. In addition, upward revisions added 18K jobs to the results for prior months. The unemployment rate remained at 4.9%, above the consensus of 4.8%, as more people entered the workforce.

Average hourly earnings, an indicator of wage growth, exceeded expectations, and they were 2.6% higher than a year ago. Stronger job and wage gains are negative for mortgage rates, since they increase the outlook for future inflation.

On Thursday, the Bank of England (BOE) announced a 25 basis point rate cut and a new bond purchase program to stimulate economic activity. Investors had expected the rate

BEST BUYS THIS MONTH

- Conforming 5/1 ARM @ 2.250%
- High Balance Conforming 15 yr. Fixed @ 2.500%
- Jumbo 30 yr. Fixed @ 3.375%
- Jumbo 5/1 ARM @ 2.750%
- FHA 15 yr. Conforming Fixed @ 2.250%
- VA 15 yr. Conforming Fixed @ 2. 250%
- FHA High Balance 30 yr. Conforming Fixed @ 2.750%
- VA High Balance 30 yr. Conforming Fixed @ 3.000%
- DU / REFI PLUS / OPEN ACCESS 30 yr. 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**

cut, but the additional bond purchases were a surprise to some. In the statement, the BOE said that the outlook for economic growth had "weakened materially" following the Brexit vote on June 23. The added demand for bonds from the BOE helped push global bond prices higher and yields lower, including U.S. mortgage rates.

Retail Sales Stall (Week ending August 12, 2016)

After several months of strong readings, Friday's retail sales data fell far short of expectations. Excluding the volatile auto component, retail sales in July fell 0.3% from June, below the consensus for an increase of 0.2%.

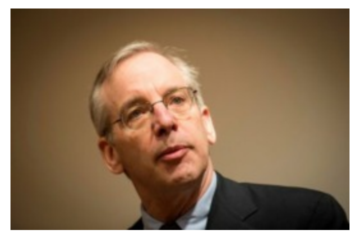
Auto sales rose a strong 1.1% in July, and total retail sales in July were flat from June, but again this was far below the consensus for an increase of 0.4%.

Consumer spending accounts for about 70% of economic output in the U.S., and the retail sales data is a key indicator. Consumer spending during the second quarter was one of the bright spots for the economy. Since the data can be volatile from month to month, investors will be closely watching to see if the July results reflected just a temporary pause or the start of a longer period of weaker spending. Slower economic growth reduces the outlook for future inflation, so the retail sales data was positive for mortgage rates.

Over the past week, bond yields overseas declined. When this happens, it makes the yields on U.S. bonds relatively more attractive to global investors, driving up the demand. This in turn causes the price of U.S. bonds to rise and yields to fall. The strong demand was seen at the Treasury auctions which took place this week. Mortgage-backed securities (MBS) prices also rose, causing mortgage rates to move lower.

Mixed Messages from the Fed (Week ending August 19, 2016)

Mortgage rates responded to comments from several Fed officials, creating some volatility during the week. By the end of the week, though, investors were left with the impression that Fed officials have a wide range of opinions about the appropriate timing to tighten monetary policy. As a result, there was little net change in either the outlook for future Fed policy or in mortgage rates.

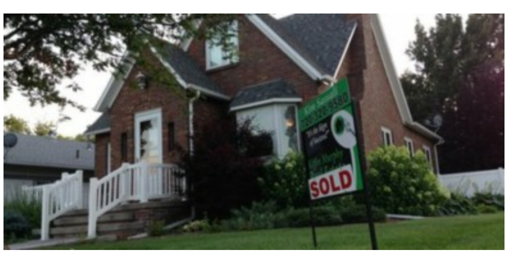


The mixed messages began on Tuesday with a speech from the Fed's Dudley that was unexpectedly hawkish. He suggested that Fed rate hikes may come sooner than investors expect. Wednesday's release of the minutes from the July 24 Fed meeting revealed conflicting views on the outlook for inflation and the degree of support for tighter monetary policy. Thursday's comments from the Fed's Bullard were very dovish. He said that one federal funds rate hike is all that will be needed for the "foreseeable future."

The most recent reading for a widely followed inflation indicator, the core consumer price index (CPI), revealed that core inflation was 2.2% higher than a year ago. Core inflation excludes the volatile food and energy components. Many investors prefer to look at core inflation because it provides a clearer indication of the underlying trend. In 2016, core CPI has held close to the current level all year.

Quiet Week (Week ending August 26, 2016)

Fed Chair Janet Yellen noted in her speech Friday that the solid performance of the economy means that "the case for an increase in the federal funds rate has strengthened in recent months." However, she provided no indication of the expected timing of the next rate hike. Of note, she said that bond purchase programs would remain a primary tool for the Fed to respond to economic weakness. As an example, she suggested that the Fed could purchase an additional $2 trillion in bonds in the event of a recession. As indicated by the futures market, investor expectations for the timing of the next Fed rate hike were little changed after her speech.



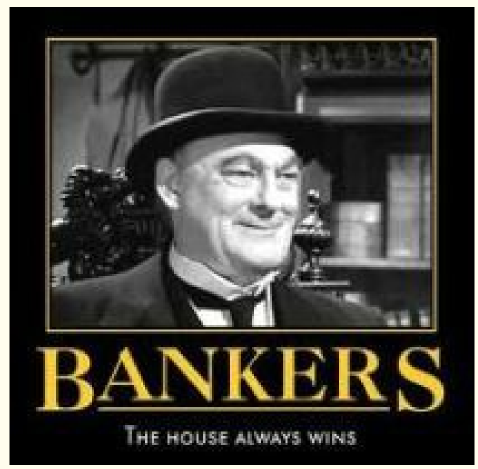
The housing data released this week revealed mixed results. In July, sales of previously owned homes dropped 3% from the multi-year high seen in June. This was the first monthly decline since February. According to the NAR, rising prices and a lack of inventory are holding back sales activity. By contrast, contracts signed for new homes jumped 12% in July to the highest level since October 2007, far exceeding expectations.

WHAT'S THE VALUE OF HAVING A MORTGAGE BROKER?

A number of years ago I stopped at an Open House ostensibly to meet the real estate agent holding it. When I walked in he greeted me warmly, but once I told him that I was a mortgage broker his demeanor changed. It wasn't that he was disappointed to learn that I was not a potential buyer; it was his near hostile opinion of mortgage brokers. His estimation of my kind was that we were a predatory lot with no redeeming social value. I know how self-serving this must sound, but he was horribly misinformed. Nor was he open to a presentation of facts to the contrary. His position was along the lines of "Don't confuse me with facts, my mind is made up." Needless to say, when people have some preconceived ideas about whatever it might be, it is hard, if not nigh impossible to dissuade them from however they have come by their biases, especially in the scant amount of time before the next open house visitor arrived. For someone in his profession, his knowledge of mortgage brokers was stunning in its ignorance. As I left, the other thing of which he was equally convinced was that a bank would always give him or his clients a better deal than any mortgage broker. Again, I thought, "If he only knew…"

I couldn't help but ruminate over the various illusions that he and unsophisticated borrowers operate under. To begin with:

BANKS ARE SELF-SERVING



- Banks always lookout for themselves first, the client, second. It behooves a borrower to have someone that is an advocate for them. A mortgage broker is the client's advocate as opposed to mortgage banker who is looking out for you know who.

- When banks offer to do something for you, it is seldom out of the goodness of their heart. As the saying goes: Follow the money. I remember one instance where a former client crowed to me about how his bank offered to refinance him at no-out-pocket expense. The only problem was that while they converted his 5/1 ARM at 6.125% to a 30 year fixed at 6%, had he come to me he could have gotten the same no-cost loan at 4%.

- Other times, I have heard borrowers rave about how the bank only charged them $500 in fees on their transaction, but when I priced out the same loan I found that the bank had in reality made $12,000 or $13,000 on the loan in essentially what were undisclosed earnings. How were they able to do this? It's because regardless of whether it's a purchase or a refinance, banks don't have to disclose how much they are making on a loan transaction.

THERE IS CONSIDERABLE VARIANCE AMONG BANKS WITH REGARD TO…

PRODUCTS

- No one lender has all of programs. A bank has one set of programs, rates and guidelines. If your application is declined you get to start the process all over again with another one. It's always better to have a choice when it comes to products, rates and qualifying guidelines. In the event that you are declined by one lender, a mortgage broker likely has another that can get you approved. This saves you filling out another loan application and the need to pull your credit again. If you have credit issues like a 30-day late, a charge-off or a collection account, it will also obviate the need to explain the reason for a second or third time.

- If you're interested in a "vanilla" loan most banks can accommodate you. But, if your loan is more involved because of credit, profession, or age-restricted communities, you or your property may not qualify because of "investor overlays". While the average broker represents about 10 different lenders, typically most use (on average) only 3 or 4.

SERVICE

- Banks also vary when it comes to service. Many of the big banks are unbelievably slow in processing their loans. Wells Fargo is so slow that it often offers better pricing on its 45 day locks than its 30 day locks to encourage borrowers to accept the longer time frame. On its jumbos they offer only 60 days locks because they can't close their loans much faster than that. A few years back, a client told me that it took him 6 months to get his loan closed with Bank of America—and he was working with the bank manager.

- Ever try to get a loan officer at a large institution on the phone? Most often you get their voice mail. I answer my phone during business hours (and though I am not crazy about receiving them) I answer calls on evenings and weekends, too.

- Bankers are on a salary; brokers are on commission. Bankers get a paycheck, regardless of whether your loan closes, brokers don't. So, it stands to reason that your file is going to get more attention from a broker who is working on commission than a banker working on salary.

KNOWLEDGE

- There is a steady stream of new blood into the banking industry and most of them enter through corporate lending channels. They get paid while they acquire the knowledge required to do loans. A mortgage broker "newbie" would starve as a mortgage broker—there is simply too much to learn in too short a time to operate on a commission only basis.

- If you have a credit issue, the loan officer at US Bank or B of A is not apt to show you how to raise your credit score or how you might get certain derogatory items removed from your credit report. In truth, not all mortgage brokers are apt to help you or tell you how to do it either, but some can—and will because they have a vested interest in making your deal happen—your success is their success.

- Most banking staffs are aware of their own proprietary programs and little else because there's little or no incentive for them to learn about them. There's a motto in sales that goes like this: "Sell what you have, not what you don't." the mortgage banker at Chase or US Bank is not likely to tell you about various programs for low to moderate incomes or first-time home buyers like Fannie Mae's HomeReady, Freddie Mac's Home Possible, or NHF Sapphire programs. Or, who to go to if you need a loan for a non-warrantable condo?

PRICING

- Nor are banks alike when it comes to pricing. So, how do you know which lender has the best rates for your particular needs? It's a good question because there is a tremendous variance among them. Some have great rates for certain programs and horrendous pricing for others. I've done a weekly survey of rates among the lenders with whom we are approved. For example, this past week (8/12/16), I had one lender offering a 5/1 Jumbo ARM at 2.75% and another offering the same program at 4.75% PLUS having to pay 3.407 points to get that rate! Obviously, the point here is that it pays to shop for a broker, not rates—that's one of the many benefits a broker brings to the transaction.

- The real estate agent that I met on the open house was also oblivious to the fact that banks have to package the loan, and have to PAY someone to perform the same tasks that a broker performs—taking the application, pulling credit and a property profile, obtaining fees from title and escrow, pricing the loan, providing a Fees Worksheet and Loan Estimate, ordering an appraisal, etc.

- Broker's charge a commission, don't they? So, aren't banks cheaper? The answer is simple—THEY'RE NOT and YOU DON'T. The lender pays the broker's commission for placing the loan with them.

- Retail vs. wholesale. It's as simple as this: "THERE'S NO SALE, LIKE WHOLESALE."

- Then why do banks [and brokers] try to sell rates rather than expertise and service? BECAUSE IT'S EASIER TO QUOTE A NUMBER than to educate a borrower. WHEN A CUSTOMER IS UNABLE TO DETERMINE HOW A PRODUCT OR SERVICE IS BETTER OR WORSE OR DIFFERENT FROM A COMPETITOR'S, A CONFIDENCE GAP OCCURS AND THE CUSTOMER WILL NECESSARILY DEFAULT TO PRICE.

IMMEASURABLES

- QUALIFYING. If the bank can't do your loan for whatever reason (low FICO scores, high LTV, limited number of offerings (or loan programs), debt-to-income restrictions, mortgage "lates", short sales, BK's. A broker is apt to know which lender has more liberal guidelines.

- PRIVACY. If you don't qualify with a bank, aside from going back to square one and having to start the process all over again, it begs the question: how many times and how many people would you like to discuss your personal financial matters with? With a broker, the answer is once.

BROKERS ARE MORE CONVENIENT BECAUSE THEY SAVE YOU...

- TIME. Time is money and it takes time to shop around and even if you have lots of free time it's apt to be futile. There used to be 254 lenders in Southern California (I don't know how many there are today) but even if you managed to call all of them in one day, you wouldn't necessarily get the lowest rate because the rates change daily (sometimes 2 or more times in the same day) and the lender with the best rate may not be have the best rate tomorrow.

- FRUSTRATION. If you get turned down a mortgage broker can submit your file to probably more than a dozen other lenders.

- MONEY. With a shorter term, a broker is likely to cut years off your mortgage term and save you tens of thousands in mortgage interest….

CONUNDRUM

- You get what you pay for, don't you? Often, far from it. Remember: Price is what you pay; Value is what you get. For all the people who are price and rate conscious, I have but one question for you: DOES PRICE MATTER, IF YOU DON'T GET VALUE?

ISSUES THAT BOTH NOMINEES ARE WRONG ABOUT - TRADE AND JOBS

To understand international trade it is critical to review two basic concepts from Econ 101: All economies benefit from trade because of the concepts of Absolute Advantage and Comparative Advantage. Absolute advantage compares the productivity of different producers or economies. The producer that requires a smaller quantity inputs to produce a good is said to have an absolute advantage in producing that good. Comparative advantage refers to the ability of a party to produce a particular good or service at a lower opportunity cost than another. Absolute advantage refers to differences in the productivity of nations, while comparative advantage refers to differences in opportunity costs between nations.

Absolute Advantage is the capability to produce more of a given product using less of a given resource than a competing entity. Comparative advantage is the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another.

The figure below may clarify the concepts. It shows the amount of output Country A and Country B can produce in a given period of time. Country A uses less time than Country B—to make both food and clothing. Country A makes 6 units of food while Country B makes one unit, and Country A makes three units of clothing while Country B makes two. In other words, Country A has an absolute advantage in making both food and clothing, but a comparative advantage only in food.

Output per Day of Work

	Food	Clothing
Country A	6	3
Country B	1	2

Even if one country has both an absolute advantage and a comparative advantage in the production of goods and services over another it is to their mutual benefit to trade because of the increased productivity that results. The existence of a comparative advantage allows both parties to benefit from trading, because each party will receive a good at a price that is lower than its opportunity cost of producing that good.

If Country A diverted its efforts into making only food then it could produce 12 units of food per day of work and if Country B similarly devoted its efforts solely to producing clothing it could produce 4 units of clothing. Clearly, they are far more productive producing 12 units of food and 4 units of clothing than if they were to not engage in trade which would leave them with a total of only 7 units of food and 5 units of clothing. Absolute advantage is important, but comparative advantage is what determines what a country will specialize in.

Comparative advantage refers to the ability of a party to produce a particular good or service at a lower opportunity cost than another. Even if one country has an absolute advantage in producing all goods, different countries could still have different comparative advantages. If one country has a comparative advantage over another, both parties can benefit from trading because each party will receive a good at a price that is lower than its own opportunity cost of producing that good. Comparative advantage drives countries to specialize in the production of the goods for which they have the lowest opportunity cost, which leads to increased productivity.

For example, consider again Country A and Country B in the figure above. The opportunity cost of producing 1 unit of clothing is 2 units of food in Country A, but only 0.5 units of food in Country B. Since the opportunity cost of producing clothing is lower in Country B than in Country A, Country B has a comparative advantage in clothing. Thus, even though Country A has an absolute advantage in both food and clothes, it will specialize in food while Country B specializes in clothing. The countries will then trade, and each will gain.

Now, back to the nominees and the issues…

One of the unusual features of this very unusual election year is that both candidates have made major trade agreements and jobs important issues in their campaigns. Donald Trump has been particularly vociferous on the matter, blaming trade for hollowing out the middle class and promising to rip up existing agreements with other countries. Though his talking points are nothing more than hot air, he has struck a chord with millions of angry voters.

Hostility to trade—even misdirected rage—should not be taken lightly. Trade is hardly the cause of all or even much of the wage stagnation or increased income inequality in the past several decades, yet polls show that many Americans, especially Republicans, believe that trade has hurt the country. The Great Recession, from which many families have not recovered, is partly responsible for this belief, as is Mr. Trump's rhetoric. In a March survey, the Pew Research Center found that 53 percent of Republicans said trade agreements with other countries were bad while 38 percent said they were good—a big switch from May 2015, when 53 percent of Republican voters thought trade pacts were good for the country. Democratic voters have been consistently more favorable: In March, 56 percent said trade agreements were good, a slight decrease from the previous May.

The United States trades with most countries under the rules of the World Trade Organization. It also has preferential deals with individual nations or groups of countries, like the North American Free Trade Agreement with Canada and Mexico, which go beyond tariffs and quotas and address issues like intellectual property rights. Mr. Trump likes to blame these deals, and the World Trade Organization generally, for much of what is wrong with the economy. Mrs. Clinton has said she would review all trade deals, including NAFTA. Both nominees are opposed to the Trans-Pacific Partnership (TPP), which President Obama negotiated with 11 countries including Japan, Vietnam, Australia and Peru.

This is the trade deal Obama actually struck. Since 80 percent of the goods from our 11 TPP partners come into our country duty-free already, and so much of our stuff is still hit with tariffs in their countries, if we eliminate 18,000 tariffs we'll be able to keep more production at home and sell more abroad.

America's total manufacturing output was nearing an all-time high at the end of 2015. True, it was with more robots and fewer people, but we've still created nearly 900,000 manufacturing jobs since 2010 because we have cheap energy, skilled workers and good rule of law. Our workers can compete if we level the playing field. Our average applied tariff is already only 1.5 percent while the tariffs of these Pacific countries can range much higher—Vietnam has peak tariffs of over 50 percent on cars and machines—so if we get rid of those tariffs our exporters are poised to benefit.

Obama demanded that in return for free access to our markets the 11 other TPP countries had to agree, some for the first time, to freedom for their workers to form independent trade unions, to elect their own labor leaders, to collectively bargain and to eliminate all child and forced labor practices. He also insisted that they adopt laws on minimum wages, hours of work and occupational safety and health, again, precisely to level the playing field with U.S. workers.

He also required that the deal prohibit all customs duties for digital products, made sure companies did not have to share source codes in order to get into new markets and ensure free access for all cloud computing services in all TPP countries—all areas of growing U.S. strength.

He demanded that this deal require all signatories—especially Malaysia—to take real steps to halt human trafficking from such countries as Thailand, Myanmar and Bangladesh and require each signatory to improve access for human rights groups to assist victims of trafficking. If you don't comply, you lose your trade benefits.

When barriers disappear, we prosper. In the 17 trade deals the United States has concluded since 2000, our balance of trade in the blue-collar-goods sector went from minus $3 billion to plus $31 billion, according to an analysis of government data by the centrist policy institute Third Way.

Trade generally benefits the economy, though there are winners and losers, as we have seen it is not a zero-sum game. Consumers benefit from cheaper clothes, electronics and other goods, while companies like Apple can sell more of their products overseas. But trade has hurt some factories and workers in the United States because they have not been able to compete with foreign businesses that enjoy absolute and comparative advantages in the form of lower-cost labor as well as subsidies and other benefits from their governments.

Even so, imports—including the surge from China—are not the only or even the most important cause of the loss of manufacturing jobs in America. Economists point out that automation and technology have had a much bigger impact. The U.S. is not alone in this regard either. Other industrialized countries like Germany and Japan have also lost manufacturing jobs even though they, unlike the United States, export more than they import. Between 1990 and 2014, the number of manufacturing jobs fell by 34 percent in Japan, 31 percent in the United States and 25 percent in Germany, according to an April report by the Congressional Research Service.

Mr. Trump's proposals for increasing tariffs on Chinese goods or his threat to pull the country out of the World Trade Organization is not going to "bring back our jobs," a favorite phrase of his. Such a policy would very likely cause other countries to retaliate by imposing tariffs on American exports, which would hurt American businesses and workers who produce those goods. Further, it is frustrating that both candidates tend to focus on American manufacturing, a sector that employs less than 10% of the work force. And, as for mining jobs, they will not be returning either because of competition from natural gas and the fact that most coal now comes from strip mining which requires very few workers. At this point, there are fewer than 60,000 coal miners, that is, less than 0.05 percent of the work force.

Though Mrs. Clinton opposes the Trans-Pacific Partnership, She is not inclined to yank the United States out of the global economy. She says trade deals must meet the "high standards for creating good jobs, raising wages, and enhancing our national security."

Mrs. Clinton has not offered details of what that would look like, but her approach would mean more assistance for workers affected by trade than Congress has been willing to offer, as well as negotiating provisions that would require other countries to improve their labor and environmental standards. She also wants other countries to agree not to depress the value of their currencies in an effort to boost their exports and says her administration would crack down on nations that engaged in such manipulation. It won't be easy to get other world leaders to go along. And American businesses with big overseas operations might also resist her proposed changes.

In closing, trade isn't what's cost America good paying manufacturing jobs; its technology and automation. Also, we as a nation have shifted from a manufacturing-based economy to being a service oriented one that requires a higher skilled labor force. Blaming trade agreements is a scapegoat for an electorate anxious about the economy and looking for answers.

Moreover, he [Obama] made sure that the accord, in a first for any trade deal, put restrictions on state-owned companies that compete with our private businesses, like Vietnam's oil company. These state-owned companies often get special benefits that enable them to undercut our companies. His trade deal would also have been the first requiring criminal penalties for stealing our industrial secrets.

He insisted on strong intellectual property protections for America's software industry, one of our greatest export assets, and taken an approach to pharmaceuticals that splits the difference between what the big drug companies want in the way of intellectual property protection time for their products and what the generic manufacturers want. Everybody would have gotten something but nobody would have gotten everything.

He required that all signatories combat trafficking in endangered wildlife parts, like elephant tusks and rhino horns, and end all their subsidies that stimulate over-fishing.

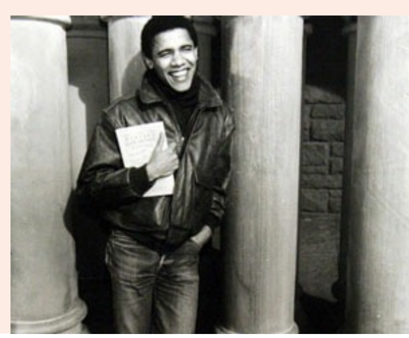
He knew that if we walked away from the TPP all our friends in the Pacific will just sign up for China's R.C.E.P., or Regional Comprehensive Economic Partnership, which will set trade rules in Asia and include weak intellectual property protections, no labor or environmental protections and no disciplines on state-owned industries.

You probably didn't know this because Trump doesn't know it himself; because Bernie Sanders knows it and it doesn't fit with his jobs paradigm; and because Hillary Clinton knows it but feels compelled to adopt a version of "Bernie Lite."

No trade deal is perfect. No single deal will save every job or remake our economy. And we must be more generous in caring for workers hurt by trade. But we also have to recognize that smart deals, like the TPP, help keep us the most efficient and innovative economy in the world and strengthen our security alliances—as opposed to abandoning our allies to regimes that don't support our values.

Thank goodness we had a former community organizer negotiating for us.

By 2030, the world economy is expected to grow by $60 trillion, with almost 90 percent of the growth occurring outside the United States. Our success depends on how much of that new wealth is spent on American products. But today, of the 40 largest economies, the United States ranks 39th in the share of our gross domestic product that comes from exports. This is because our products face very high barriers to entry overseas in the form of tariffs, quotas and outright discrimination.



RATE SUMMARY

In the past month…
*Conforming programs—were an 1/8th better↑
*Jumbos— were mixed ↕
*Governments—an 1/8th better↕

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

A bus station is where a bus stops.

A train station is where a train stops.

On my desk, I have a work station.