Newsletter - Vol. 2 Issue 10

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30 Yr. Fixed Conform. & Jumbo	6% & 6.25%
5/1 ARM Conform. & Jumbo	5.5% & 5.875%
Prime Rate	7%
MTA	3.478%
COFI	3.047%
Home Ownership Accelerator	4.295%

Morty's Bench Marks - 12/12/05

These rates assume 30 day locks priced at par, that is, at wholesale with no rebate.

Note: The following was written on 12/12 but because of problems with reproducing the graphs we were unable to put this issue to bed until 12/20. As expected, the Fed did raise the Prime Rate to 7.25%.

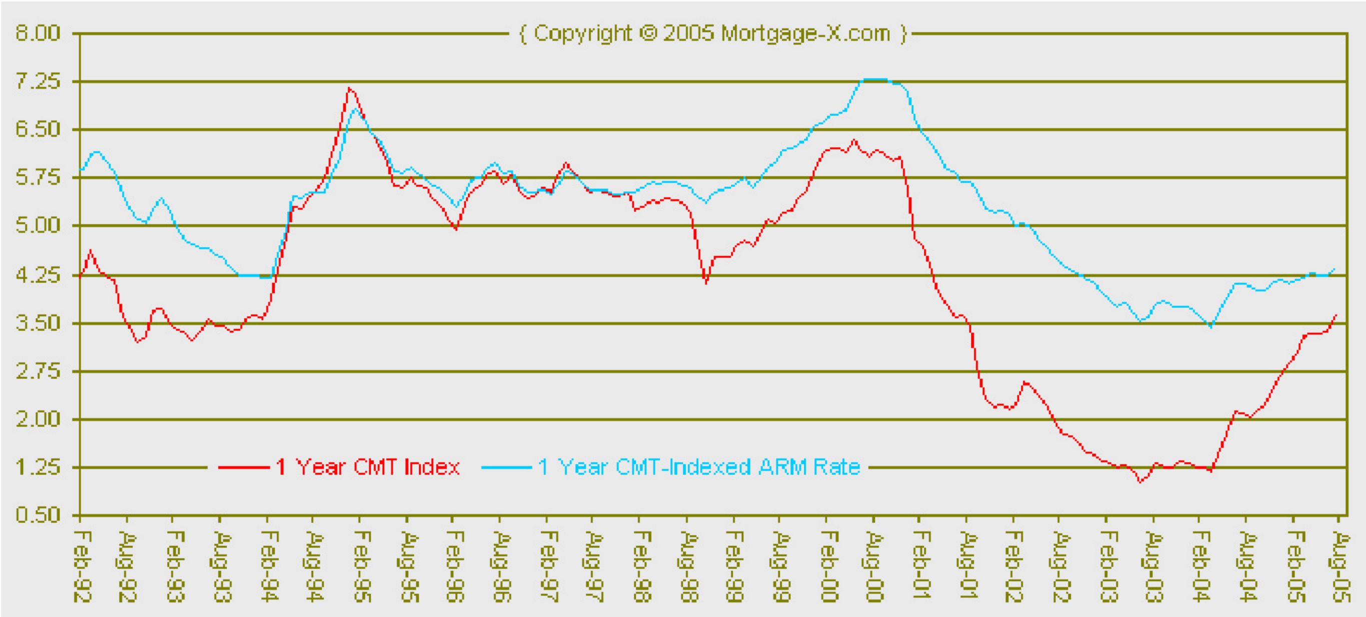
Current Events

Happy holidays lie ahead for many of you--for others, something less so. In light of current events, the Grinch will be paying a visit to some of you in the form of higher interest rates, anon. When the Federal Open Market Committee (FOMC) meets tomorrow, Tuesday, December 13, another .25% hike to the Fed Funds Rate is a lock. For those of you with HELOCs (Home Equity Lines of Credit) this will translate into a higher mortgage payment on your 2nd because of the concomitant bump in the Prime Rate to 7.25%. It is my belief that we are nearing the "neutral target" for interest rates, a level meant to keep prices in check without jeopardizing economic growth. But remember that strong or inflationary economic news tends to be bad for Bonds and home loan rates, while weak economic reports tend to benefit Bonds and rates. The most influential Bond market mover in the days ahead could be the Consumer Price Index inflation data. And speaking of indexes...

THIS ISSUE'S TOPIC: INDEXES

Last month's issue covered the fixed component of ARMs (adjustable rate mortgages), the margin. This month's focus will be on the variable component or index. An index, for our purposes, is nothing more than a statistical indicator which changes with time and/or the cost of money, to help determine how much to increase (or decrease) interest rates. There are several different indexes. Each one has a distinct market and fluctuates differently. Among the most well known and frequently used are the CMT, the LIBOR, the COFI, the MTA, and the COSI.

Constant Maturity Treasury (CMT) Indexes



1-Year CMT Index vs. national average mortgage rate on 1-year CMT-indexed ARM's, 1992-2005

1-,3-,5-Year CMT -- Average yields on U.S. Treasury securities adjusted to a constant maturity of 1, 3, or 5 year(s) correspondingly. The CMT indexes are volatile and move with the market. They reflect the state of the economy, and respond quickly to economic changes. 1-Year Constant Maturity Treasury index (1 Yr CMT)

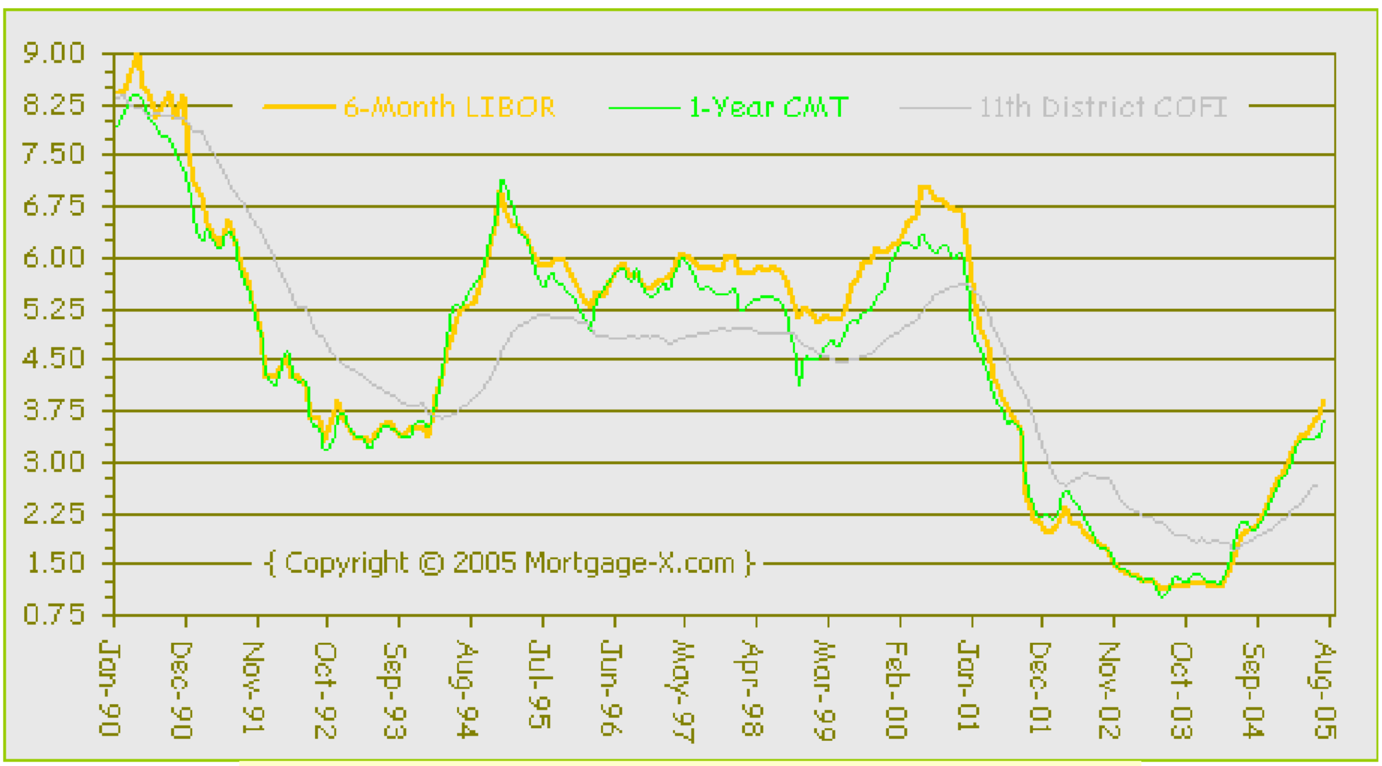
This is the most widely used index. Roughly half of all ARMs are based on this index. It's used on ARMs with annual rate adjustments. It is also referred to as the 1-Year Treasury Bill (1Yr T-Bill), the 1-Year Treasury Security (1Yr T-Sec), or the 1-Year Treasury Spot index.

London Inter Bank Offering Rates (LIBOR) Index

London Inter Bank Offering Rate (LIBOR) is an average of the interest rate on dollar-denominated deposits, also known as Eurodollars, traded between banks in London. The Eurodollar market is a major component of the International financial market. London is the center of the Euromarket in terms of volume.

The LIBOR is an international index which follows the world economic condition. It allows international investors to match their cost of lending to their cost of funds. The LIBOR compares most closely to the 1-Year CMT index and is more open to quick and wide fluctuations than the COFI rate, as shown on our graph.

There are several different LIBOR rates widely used as ARM indexes: 1-, 3-, 6-Month, and 1-Year LIBOR. The 6-Month LIBOR is the most common.



6-Month LIBOR vs. 1-Yr CMT, 11th District COFI, 1990-2005

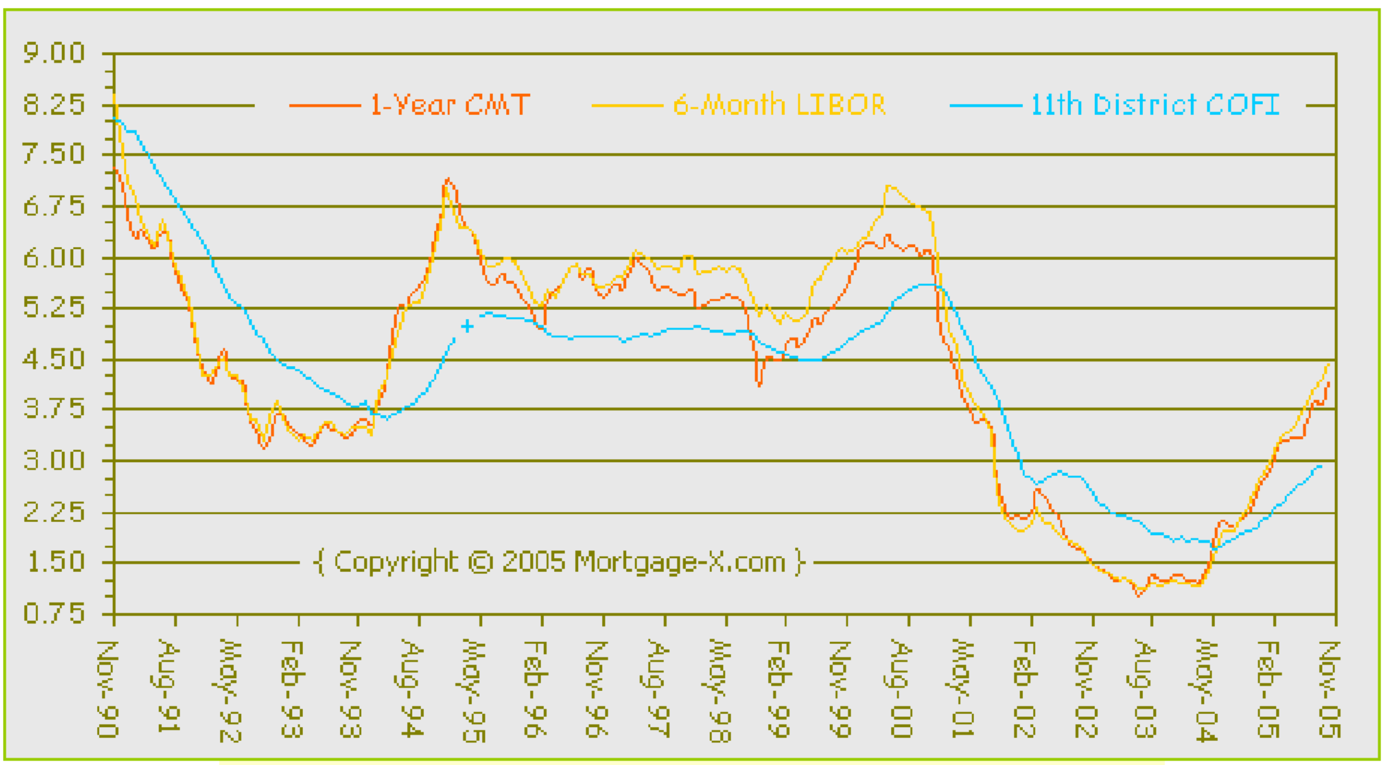
LIBOR-indexed ARMs offer borrowers aggressive initial rates (lower than many other ARMs) and has proved to be competitive with such popular ARM indexes as the 11th District Cost of Funds, the 6-Month Treasury bill. With the LIBOR ARMs borrowers are generally protected from wide fluctuations in interest rates by periodic and lifetime interest rate caps.

11th District Cost of Funds Index (COFI)

This index reflects the weighted-average interest rate paid by 11th Federal Home Loan Bank District savings institutions for savings and checking accounts, advances from the FHLB, and other sources of funds. The 11th District represents the savings institutions (savings & loan associations and savings banks) headquartered in Arizona, California and Nevada.

Since the largest part of the Cost Of Funds index is interest paid on savings accounts, this index lags market interest rates in both uptrend and downtrend movements. As a result, ARMs tied to this index rise (and fall) more slowly than rates in general, which is good for you if rates are rising but not good for you if rates are falling.

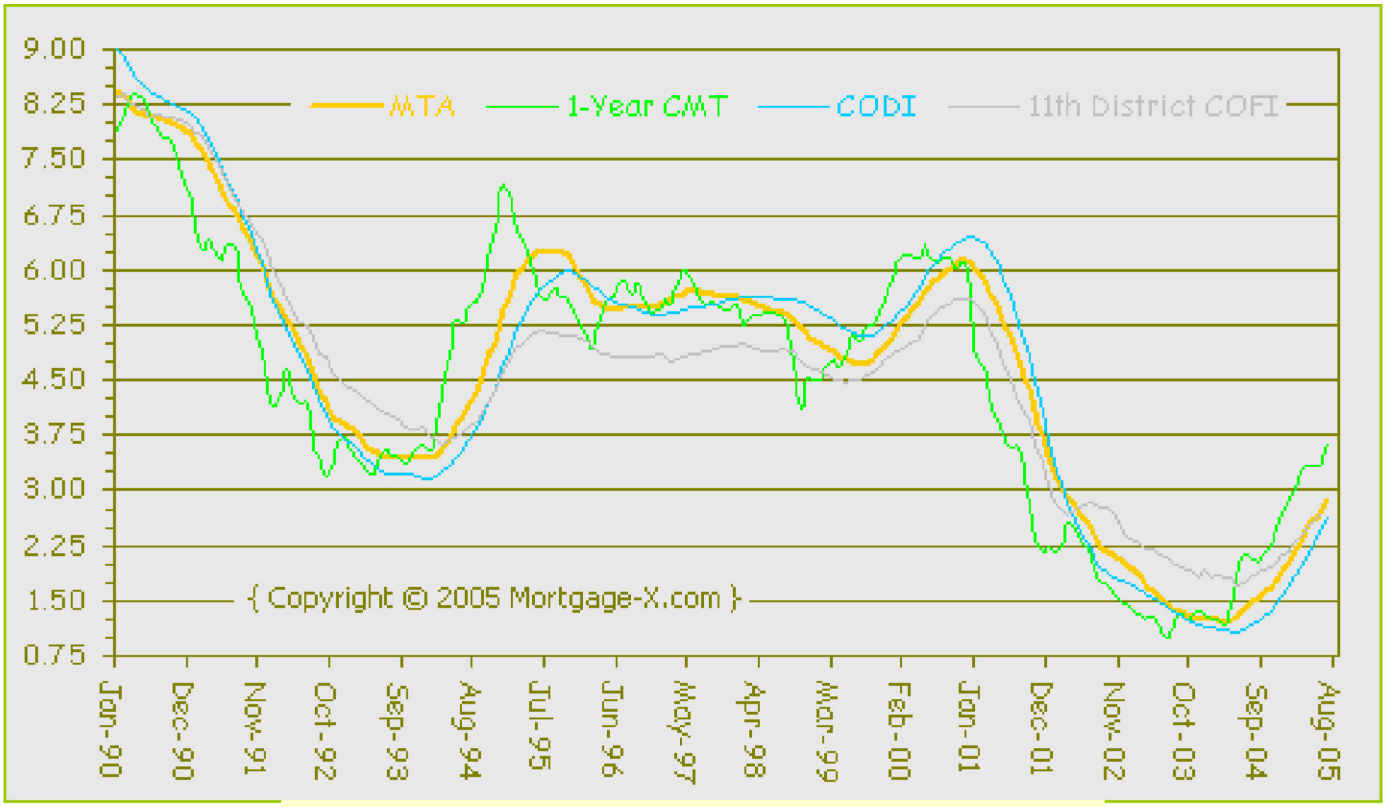
The following graph illustrates the trend for the COFI index to lag other indexes:



11th District COFI vs. 1-Year CMT and 6-Month LIBOR, 1990-2005

The 11th District Cost Of Funds Index is the slowest moving and most stable of all ARM indexes. It smoothes out a lot of the volatility of the market. The 11th District Cost of Funds index is one of the most popular ARM indexes. This index is primarily used for ARMs with monthly interest rate adjustments. Because this index generally reacts slowly in fluctuating markets, adjustments in your ARM interest rate will lag behind other market indicators. Many lenders believe COFI-indexed ARMs are some of the best deals available on the market today. The COFI is one of the most widely used Option ARM indexes.

12-Month Treasury Average (MTA)

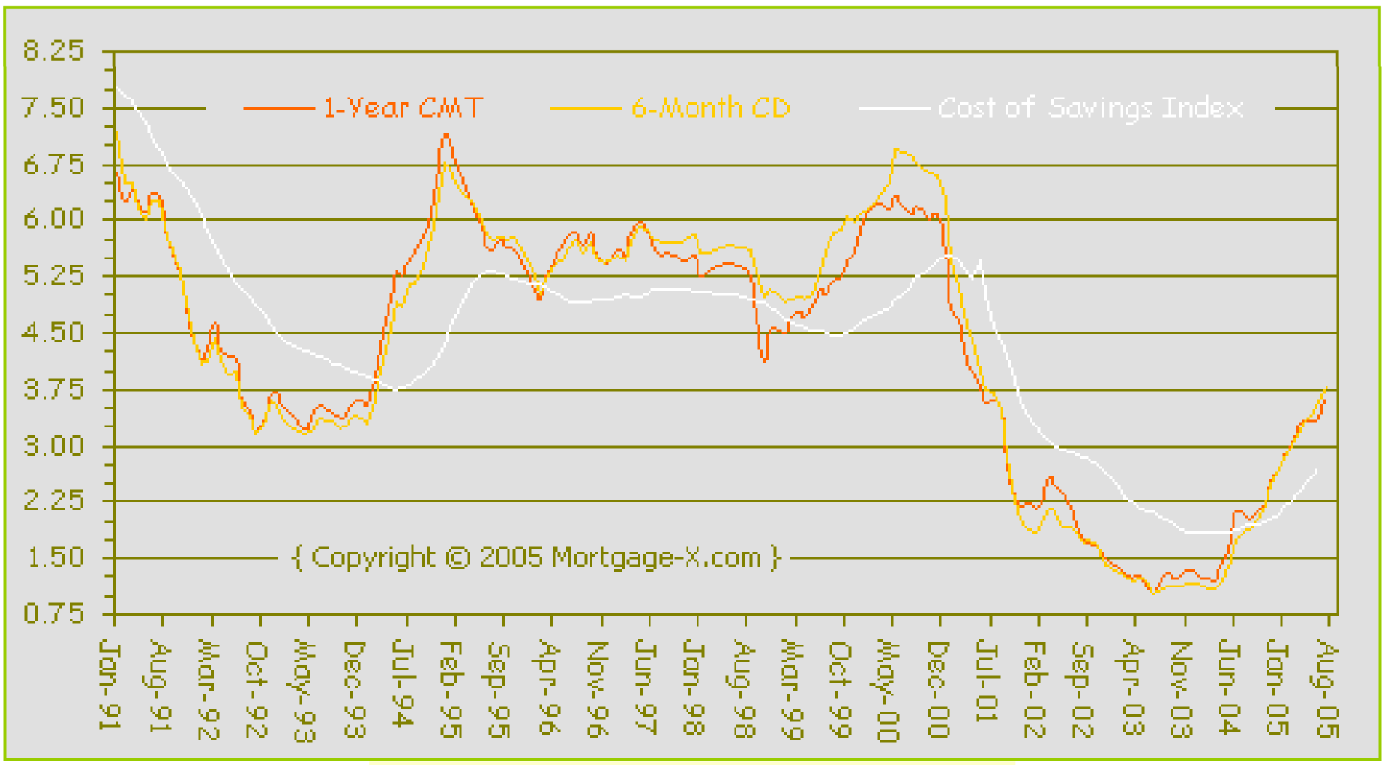


MTA vs. 1-Yr CMT, 11th District COFI, CODI, 1990-2005

The Monthly Treasury Average, also known as 12-Month Moving Average Treasury index (MAT) is a relatively new ARM index. This index is the 12 month average of the monthly average yields of U.S. Treasury securities adjusted to a constant maturity of one year. It is calculated by averaging the previous 12 monthly values of the 1-Year CMT. Because this index is an annual average, it is steadier than the 1-Year CMT index. The MTA and CODI indexes generally fluctuates slightly more than the 11th District COFI, although its movements track each other very closely. The MTA and COFI-indexed ARMs work much the same way. The MTA is the most widely used Option ARM loan index.

Cost of Savings Index (COSI)

This index is the weighted average of the rates of interest on the deposit accounts of World Savings. World Savings receives money from consumers in the form of deposits and lends money as home or other loans. The interest rates in effect on these deposits are the basis for the COSI index. It is not based on actual interest paid, but rather the weighted annualized average of all interest rates in effect on World Savings deposit accounts on the last day of each month. The COSI adjusts monthly and has a one-month reporting lag. It is computed on the last day of each calendar month and is announced on or near the last business day prior to the fifteenth day of the following calendar month.



COSI vs. 1-Yr CMT, 6-Month CD, 1991-2005

The COSI is a product of World Savings solely. They claim it is more stable than the COFI but the start rate and margins are much higher. Note: World Savings is infamous for cutting appraised values, also, they require a non-refundable application fee of $350.

MONEY FOR THE HOLIDAYS

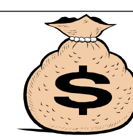
Send me a referral and upon the deal closing escrow, I'll send you a gift certificate for $125 to the retailer or restaurant of your choice.

MORTY'S MAILBAG

Again, this month, our mail-bag was empty. Is it apathy or empathy? Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered in the next issue for the benefit of all. Anonymity is guaranteed if requested. Questions may be forwarded via email, phone or fax. Morty's email address is....

Morty@MortgageStraightTalk.com

NEXT ISSUE'S TOPIC: HARD MONEY LOANS



SEASONS GREETINGS!