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Morty's Bench Marks - 9/6/05

30 Yr. Fixed Conf.	5.375%
30 Yr. Fixed Jumbo	5.75%
5/1 ARM Conf.	5%
5/1 ARM Jumbo	5%
Prime Rate	6.5%
MTA	3.019%

Above rates assume 30 day locks priced at par, that is, at wholsale with no rebate.

RECENT EVENTS

As expected, the Fed raised the Federal Funds rate to 3.5% on Tuesday, August 09, 2005 which in turn hiked up the Prime Rate to 6.5%. There were two more (possibly three) rate increases expected this year. The thinking at the time by the capital markets was that the Fed would continue to raise rates until year end at which point the Fed Funds rate would be at 4.25 which would translate to a Prime Rate of 7.25%.

The operative word in the first paragraph is "was". Then, along came Katrina. The .25% hike in the Fed Funds rate will be a subject for much discussion when the Fed Open Market Committee next meets on September 20th. With gas at $3/gallon and crude oil prices hitting an all-time high of $70.85, on Friday (9/2), the Fed may delay the heretofore expected hike for fear of stalling the economy. At the same time, the FOMC is faced with the inflationary pressures of the on-going situation in Iraq and aiding in the re-building of a devastated New Orleans.

Before Katrina, markets had assumed the Fed would raise short-term interest rates for the 11th consecutive time to 3.75%. Now, though, markets see some possibility that the Fed will pause in its rate-increase campaign, though they put the odds at less than 50%. The Fed seems to believe that there will be a hit to economic growth, but some also believe inflationary pressures will be aggravated by higher energy prices. In short, for what happened in the environs surrounding the "Big Easy" there appear to be no "easy" answers.

THIS ISSUE'S TOPIC—EVERYTHING YOU NEED TO KNOW ABOUT PREPAYS

By "prepays", I'm referring to prepay penalties. What is a prepay penalty? It is a fee paid by borrowers for the privilege of retiring a loan early. There are borrowers who have them and are not aware that they do. In the past, **"A paper" loans rarely had prepays, but now they've become more common place; sub-primes, almost always have them.**

HARD VS. SOFT

There are two varieties of prepay—the **HARD** and the **SOFT**. The latter **ALLOWS A BORROWER TO SELL THEIR PROPERTY** while the prepay term is in effect and **PAY OFF THEIR LOAN WITH NO PENALTY**--just not refinance. With a **HARD PREPAY**, **IF YOU SELL OR RE-FINANCE BEFORE THE PENALTY EXPIRES YOU ARE REQUIRED TO USUALLY PAY 6 MONTHS WORTH OF INTEREST** (because there is so little principal reduction in the early years of a loan this usually amounts to 6 months worth of mortgage payments). Some penalty amounts are "stepped down" between years one, two, and three.

DURATION

Prepays can last **ANYWHERE FROM 4 MONTHS TO 5 YEARS** in length. The lengths differ with different lenders and different loan programs. In some cases, lenders will allow a borrower to buy their way out of prepay penalties.

Typically, I ask borrowers for copies of their mortgage notes because it's better for borrower and broker to find out upfront if there is one before the borrower pays for an appraisal while the broker has spent two weeks working on a loan only to find out that re-financing is not economically practicable at this time. Some sub-prime lenders are notorious for burying these little surprises, not in the terms of the mortgage notes, but in addendums or riders to the note.

WHY

Having said all this, why would anyone agree to having one? Because WITH A PREPAY THE RATE MAY BE HALF TO A FULL PERCENT CHEAPER OR IT MAY MEAN NO LOAN ORIGINATION FEE (since the broker's origination fee is being covered by a rebate). Moreover, having one may be a non-event in that it often has no impact on a borrower because they may have no interest in selling or refinancing their home during the term of the prepay.

ASK MORTY

As there was nothing in Morty's mail bag this month, there is little to say here, except that 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. Questions may be forwarded via mail phone or fax. (See front of issue for phone and fax numbers). Morty's email address is Morty@MortgageStraightTalk.com

NEXT ISSUE'S TOPIC--?