Newsletter - Vol. 2 Issue 9

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30 Yr. Fixed Conform. & Jumbo	5.875% & 6.125%
5/1 ARM Conform. & Jumbo	5.5% & 5.75%
Prime Rate	7%
MTA	3.326%
COFI	2.972%
Home Ownership Accelerator	4.088%

Morty's Bench Marks - 11/21/05

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

Happy Thanksgiving

"But at my back I hear
Time's winged chariot
hurrying near…"

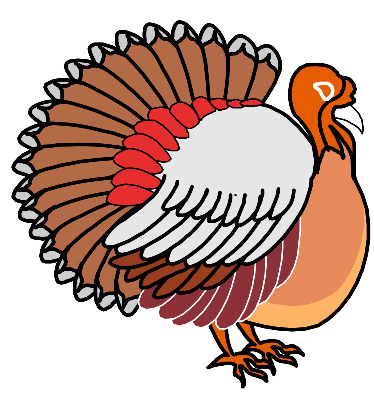
Andrew Marvell penned this line some 400 years ago in a poem entitled *"To His Coy Mistress"* and it has a particular relevance for me this month as some of you have may have noticed I'm a bit behind schedule in getting the newsletter out. Business has been good, the market varied, and Time, as ever, beating.

RECENT EVENTS

As forecasted in the last newsletter, on October 12th, the Fed Open Market Committee (FOMC) raised the Prime Rate for the 12th straight time in the past 16 months. This took no great prescience on my part; it was a foregone conclusion. At least one more quarter-point hike is likely here in November and there could be two more after that at its December and January 2006 meetings. As mentioned here, last month, the Fed and its new chairman designate, Ben Bernanke, are aiming for the so-called "neutral" target for interest rates, a level meant to keep prices in check without jeopardizing economic growth. Several bond managers believe that a "neutral" Fed funds rate is probably between 4-4½%, yielding a Prime Rate of 7-7½%.

OLD BUSINESS

Last month, I expounded at some length about the **Home Equity Accelerator**. One reader asked if I would boil all the verbiage down to just bullet points. So without further ado…



HOME EQUITY ACCELERATOR
(80% HELOC 1st Mortgage)

Advantages:

* save tens of thousands in interest

* cut your payoff term in half

* while lowering your loan balance you still have access to the original amount of your credit line for whatever purpose.

Mechanism: the interest earned on your residual checking account balances, in conjunction with the direct deposit of your paycheck, helps to significantly lower your interest payments and thereby accelerate your payoff time by about 50%.

Term: 30 years (10-year interest only period, 20-year amortization period. Draws can be made in the last 20 years provided the draw combined with outstanding balance is less that the line commitment amount.

Loan type: 30-year access HELOC, based on the 1-month LIBOR.

Adjustment period: monthly

Lifetime cap: 5% over start rate

Minimum credit line: $100,000

Maximum credit line: $1,000,000

Maximum debt to income ratio: 48

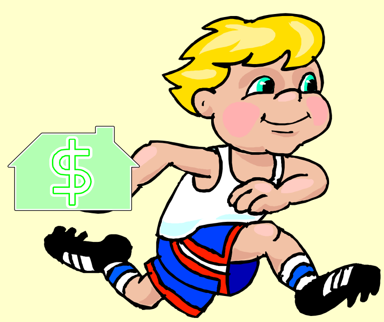
Impounds: Not available.

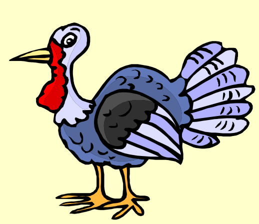
Minimum credit scores: 680

Withdrawals: ATM/Visa P.O.S. card with 8 surcharge-free ATM transactions per month at ATM, checks, bill-pay, ACH, EFT.

Payments: Direct Payroll deposit (required), EFT ACH, Bank by mail.

Statements: Monthly, Online account access.





THIS ISSUE'S TOPIC
Fully-Indexed ARMS and Deferred Interest Loans

The other day, I remarked to a client with an ARM loan, "That the fully-indexed rate was 5.63%. To which he replied, "Fully-indexed, what is that?"

It became further evident that even though this man had an ARM loan he didn't understand what he had or how it worked.

With a **fixed-rate mortgage (FRM)**, one has a fixed-rate of interest, which is set for the life of the loan, like say 6%. With an **Adjustable Rate Mortgage** (ARM) there are **two interest rate components—the index and the margin**.

The "**ADJUSTABLE" COMPONENT is the INDEX, from which the adjustable rate mortgage derives its name. There are many different indexes in the financial markets like the LIBOR, the MTA, the COFI,**

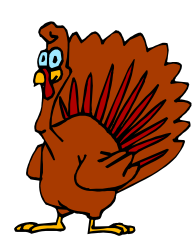
the CODI, and the CMT, to name just a few. Some adjust up quicker than others but they are also the quickest to adjust down. There are different indexes for different individuals "comfort zones".

The MARGIN is the FIXED- COMPONENT and it remains constant for the life of the loan. The margin is the lender's "profit margin", if you will. No matter what happens to interest rate indexes—whether they go up or down--the lender is assured of making this percentage of profit. Because the lender that provides ARM loans is not solely bearing the uncertainty of future events to the extent that the lender of a fixed-rate loan is, the price of the ARM loan will routinely 0.5%-1.0% cheaper than a fixed rate product.

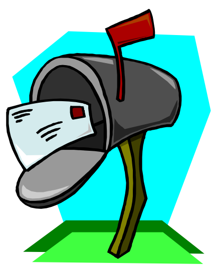
So that one has a feel for comparison, if a fixed-rate mortgage were to have an interest rate of 6%, an adjustable might have a variable rate of 5.5%, with the Index rate comprising the 3% and the Margin rate, the 2.5%. Thus, when you add the Index rate and the Margin rate together, you get what is known as **THE FULLY-INDEXED RATE or ACTUAL INTEREST RATE. In this example, the fully-indexed rate is 5.5%.**

DEFERRED INTEREST LOANS are those where the borrower is afforded several payment options. Among these options, one option is to make **the minimum payment which is even less than an interest-only payment.** The **difference between the minimum payment and the interest only payment** is the amount known as the **deferred interest.** This "unpaid" interest is then added to the loan principal. Obviously, if you make the interest-only payment, there is no deferred interest, consequently, nothing is added to the loan balance. The minimum payments can be made until the amount of deferred interest equals 110% or in some cases 125% of the original principal balance. What this permits is greater leveraging of one's cash flow. In recent years, many savvy investors used these cash flow strategies with option ARM loans to effectively borrow money for as little as 1% and re-invest at 10-15% while their real estate appreciated in the range of 20-30%.

People tend to think of interest rates only in terms of they're going up—but what most people forget is that they come down, too, as we've seen over the past 5 years. Interest rates hit 45 year lows in 2003.



Quite naturally, nothing much stays the same forever. Yet, one startling statistic worth noting is that mortgage rates have only been above 7% in 23 years out of the past two centuries. Yet another thing people often overlook is that as interest rates rise, correspondingly, so do the rates of return on investments. In the years, from 96-99 when interest rates were in the 8-9% range, as a financial planner, I had any number of mutual funds that were consistently earning returns of 25-35%.

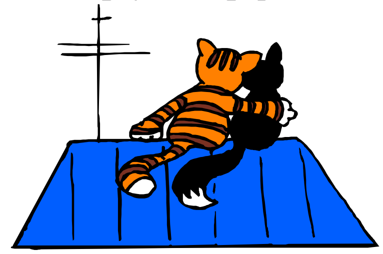


Again, this month, our mail-bag was empty. So, I have either an apathetic readership or one that is well-informed. I'm not sure I 'm ready to declare which I believe to be the more likely of the two. Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer 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: THE MTA, THE COFI, THE CODI, THE CMT, AND THE LIBOR--WHICH INDEX IS RIGHT FOR YOU?

THE BEATLES WERE RIGHT - THE LOVE YOU TAKE IS EQUAL TO THE LOVE YOU MAKE!



Traditionally, this is the seasonal time of year when people cursorily exhort others to "have a Happy Thanksgiving", often with the same level of sincerity that they routinely invest in the platitudinous "Have a nice day". As the final 45 or so days of 2005 roll to a close, its started me thinking. I'm not religious by nature, but I do believe "in what goes around, comes around". I sincerely hope that during the next 6 weeks you have some time to spend with those who are near and dear to your heart and the opportunity to express how fortunate you [both] are to have each other in your lives. For those not so fortunate, I wish you better times in the future.