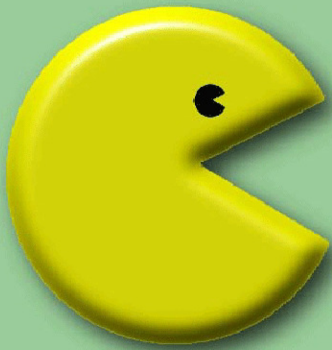

Newsletter - Vol. 3 Issue 1

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30 Yr. Fixed Conform. & Jumbo	5.5% & 5.75%
5/1 ARM Conform. & Jumbo	5.375% & 5.75%
Prime Rate	7.25%
MTA	3.618%
COFI	3.190%
Home Ownership Accelerator	4.386%

Morty's Bench Marks - 1/17/06

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

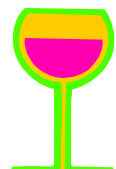
FAREWELL '05

As expected the Federal Open Market Committee (FOMC) raised their Discount Rate for the 13th time. The Discount Rate now stands at 4.25%. Most banks raised their Prime Rates to 7.25%. The consensus is that there's another ¼ point bump slated for the January 31 meeting and the majority believe one more is coming in March. That should about do it, for the intermediate term. By removing "accommodative" from their earlier statements, the Fed is believed to have signaled that committee members now consider that inflation is contained and is winding down their rate hike cycle.

HELLO '06

Welcome to 2006! Pundits seem to be evenly divided as to what the New Year will augur: half foresee a strong economy and half see a recession brewing. The crowd that views "the glass as half empty" pointed to the appearance, last week, of an "Inverted Yield Curve". An inverted yield curve is when shorter term money is priced higher than longer term money, specifically, the 2-Year Treasury Note Yield moved higher than the longer term 10-Year Treasury Note Yield. Why does anyone care....because inverted yield curves have been viewed as the black cats of the economy, heralding slowdowns at best and recessions at worst. The implication here is that investors do not feel sanguine about the long-term strength of the economy.

Those in "the glass is half-full" camp claim that there is a perfectly reasonable explanation. They point to the fact that the Fed Funds Rate has



increased 3.25% (the Prime Rate moves in tandem with the Fed Funds Rate) since June 2004. The 2-Year Note Yield moved higher with the Fed rate hikes since it is also short-term paper. But the 10-year Note Yield actually moved sideways during this time frame because of the inflation fighting mechanism behind the Fed rate hikes...and longer-term paper is more concerned with inflation rather than actual Fed moves.

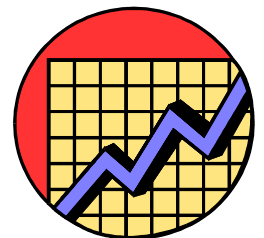
Also, the same factors that are influencing the interest rate climate in the U.S are having similar global effects on overseas bond markets. The yield curves in Japan and Germany, the second and third largest economies in the world, have been flattening, while the yield curve in Britain has already inverted. Long-term interest rates are even lower in Europe and Japan than they are in the U.S.

Remember, too, that money invested in the market tends to flow back and forth between the stock market and the bond market, on which home loan rates are based. When good news for the economy comes out, money flows out of bonds and into stocks, as investors are looking to maximize their return

with stocks and stand to make a return better the 4-6% they're apt to get from bonds. And when money flows out of bonds, prices worsen because the yield (interest) on bonds is inversely related to its price so as the price drops the yield increases....thus home loan rates, in turn, worsen.

The optimists opine that things are different this time because while the Fed moves have pushed the 2-Year Note Yield higher, inflation appears contained (for the time being) and our huge trade deficit has spurred heavy purchases of government bonds by foreign investors, particularly Asian central banks which have helped reduce the 10-year Note Yield. They claim that this bodes well for the economy and a recession does not appear to be in the cards for 2006.

While I'm inclined to agree--to some degree--with the bullish contingent, I believe the flattening yield curve presages a slowdown in the rate of economic expansion. Moreover, we have yet to "pay the piper" for our 400 billion dollar budget deficit, the subsequent tax cut, and the projected 1.3 trillion dollar cost of our incursion into Iraq, and as always, the Piper will have his due.



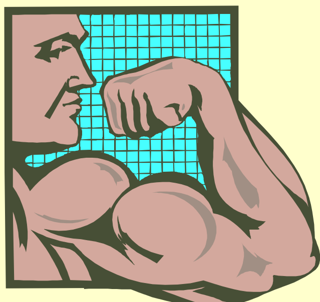
THIS ISSUE'S TOPIC:

Hard Money Loans

Every so often borrowers have situations (foreclosures, bankruptcies, tax liens, etc.) arise where they're in need of what I call "Fedex" loans, where the money "absolutely, positively has to be there" and more or less "overnight". That's when the services of a hard money lender is required. They can be super-quick, some can be obtained in as little as a day or two. Their services don't come cheap: no one borrows money at these rates but under the most exigent of circumstances. But, as the saying goes, "when you gotta have it, you gotta have it".

If you own real estate, they will make loans that you couldn't obtain anywhere else. Like Johnny Carson's oily pitchman, Art Fern, if you're in bankruptcy, if you're in foreclosure, if you have no FICO score, "they don't care". Most don't require Verification Of Employment (VOE), nor a Verification Of Mortgage (VOM), or a Verification Of Deposit (VOD), or a CPA letter or business license (for self-employeds), or a Verification Of Rents (VOR) for 1-4 units, and there's no seasoning for cash. It's all NO PROBLEM!

So what does one have to pay for all this speed, convenience and lack of documentation? The answer is a lot, but not as much as one might expect. Generally speaking, rates are apt to be in the range of 10-14%. A number of lenders use the 6 month LIBOR (see last month's issue, vol. issue 10, for a discussion of indexes). The base rate for a 2/28 (fixed rate for 2 years and adjusts thereafter) Interest Only starts at 9.95% and goes up



depending on whether or not one has a prepay and the length of it. The Margin can range of anywhere from 2-10 points (see Vol. 2 issue 9 for a discussion of Margins). The adjustments caps, if there are any, are likely to be in the range of 3/1/7 or thereabouts (see this issue of Morty's mailbag for an explanation of caps).

Hard money lenders will do 1st & 2nd trust deed loans and loan amounts range from $100,000 to $2,000,000, although some lenders will decline 2nds under $417,000 (recently changed from $250,000) because of Section 32 (predatory lending laws). The big qualification is one of Loan to Value (LTV). Typically, LTVs need to be 65% or less. A few lenders will go as high as 75% on jumbos for Single Family Residences (SFRs). Generally speaking, they'll provide funds for residential properties, condos & townhouses, lot loans, bridge loans, construction loans, and small apartment buildings. Most are OK with cross collaterals or multiple borrowers.

So what is needed to do one of these loans? Usually, nothing more than an application (form 1003), a credit report, a preliminary title report and an appraisal (the last 3 items vary according to lender).

MORTY'S MAILBAG

After months without a question, we finally have a question for Morty.

Q. Would you explain Adjustment caps?

A. Adjustment caps apply to Adjustable Rate Mortgages (ARMs). Most ARMs have fixed interest rates for differing periods of time e.g., 3, 5, 7, & 10 years. When that period is up they adjust according to the index they're tied to. The potential change in the indexed interest is

known as the adjustment cap. The adjustment cap notation is often expressed by three consecutive numbers, like **5/2/5**. The first number refers to the maximum interest rate change during the **first adjustment period**, the second number, to the maximum interest rate change **during subsequent adjustment periods** and the third number refers to the maximum interest rate change **over the life of the loan**. The periods of adjustment vary with the loan: for a 3/1 or a 5/1, it would be annually or once a year; for a 5/6 or 7/6, it would be every 6 months or twice a year. Thus, a 5/1 ARM with a start rate of 6% (for 5 years) and a margin of 2.25% with adjustment caps of 5/2/5 means that in year 6 (the first adjustment period) the index **could** adjust upward 5%, in year 7 (the subsequent adjustment period) it **could** adjust 2%, but over the life of the loan the index **could never** exceed, more than 5% plus the start rate. So, if this same loan were tied to the 6-month LIBOR index and the index had increased from 4.69% (today's rate) to 6.69% then the new fully indexed rate with the adjustment would be: 2.25% (the margin) + 6.69% (the index) = 8.94% and the rate **could** go up as much as 2% at the beginning of year 7 to 10.69%, if interest rates had risen substantially during year 6. But, it could never exceed 11% (6% start rate + 5% lifetime cap). When mortgages do adjust, borrowers sometimes experience what is termed payment shock because the rate has adjusted upward 2-3%.

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

BACK ISSUES

A few readers have called to say they've lost or misplaced past issues. I'll be happy to e-mail or snail mail you an archived copy, if you let me know the topic or volume/issue number.

HAVE I GOT A DEAL FOR YOU

Do a refi or purchase money loan with me and take your pick, either:

3 days and 3 nights aboard Carnival Cruise Lines.

Embarkation from the Port of Long Beach to Ensenada and back

OR

8 days and 7 nights accommodations in Hawaii.

NEXT ISSUE'S TOPIC: 1031 EXCHANGES