Newsletter - Vol. 3 Issue 11

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mortgagestraightTalk.com

Tel: 760-726-4600 Cel: 760-717-8584

Fax: 760-639-0785

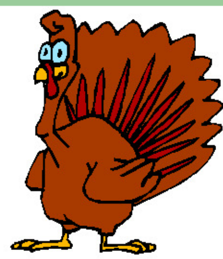
Rod@MortgageStraightTalk.com

30 Yr. Fixed Conform. & Jumbo	5.875 & 6.25
5/1 ARM Conform. & Jumbo	5.625 & 5.875
Prime Rate	8.25
MTA Index	4.758
COFI Index	4.277
Home Ownership Accelerator Index	5.320

Morty's Bench Marks - 11/01/06

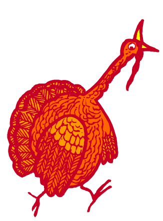
Above rates assume 30 day locks priced at par, that is, at wholesale with no rebate.

This month's newsletter is a kind of a grab bag of different items that I've earmarked for inclusion at one time or another but had to postpone because of space considerations.



Someone asked me the other day if I have any pet peeves when it comes to the mortgage business. Aside from the bugaboo of all mortgage brokers--lack of client loyalty, those that particularly irk me are the emotional bait and switch tactics that some brokerages and mortgage bankers use to lure in clients. An outfit called Best Funding, that advertises on KLSX (97.1) FM and uses the slogan **"You shouldn't have to pay more for a loan just because you don't have good credit"** is especially misleading. **Their motto contradicts the most basic tenet of economics, namely that of risk vs. reward**. If one has poor credit, it is a riskier proposition for the lender and this is precisely why one should pay more for a loan—to offset the added risk of default.

The reason I call them "emotional" bait and switch artists is because just because they say it, doesn't make it so. They effectively "spin" things to make it sound as though they're on the underdog's side when it's nothing more than a ruse to get consumers to call them. By spreading disinformation they're being deliberately misleading: they do both the public and the industry a disservice.



CURRENT EVENTS

Despite indications that inflation pressures may be starting to ease as energy prices have (at least temporarily) retreated, the Federal Reserve is not inclined to lower short-term interest rates anytime soon as long as core inflation continues to remain above 2.5%, according to minutes from its most recent meeting. The reason is uncertainty: uncertainty about the housing market, uncertainty about economic growth and most of all, uncertainty about inflation.

The decision to leave the Fed Funds rate, its overnight benchmark lending rate, unchanged at 5.25 percent (which equates to an 8.25% Prime) reflected the belief that more than two years of previous interest rate increases would help hold inflation down. With the Dow hitting 12,000 on September 19th , Fed officials remain convinced that although the housing sector is experiencing "a substantial correction" the weakness in the housing market is not spilling over into other parts of the economy.

Many investors had been betting that the Fed would keep rates unchanged for now and eventually cut them. But based on the price of futures contracts tied to Fed policy, traders seem to believe that the Fed will keep its benchmark rate at 5.25% until early into the New Year, before cutting it next summer. After the Fed policy meeting, however, the futures prices changed to suggest that traders thought a rate increase over the next year had become even less likely. The Fed itself, while firmly on hold in the near term, appears more biased toward tightening than easing because of inflation.

THIS ISSUE'S TOPIC: BUY DOWNS

For the past year sellers have been frustrated by how long their property has been on the market. The housing market has cooled due to rising interest rates and buyers' diminished ability to afford mortgage payments. During such times it behooves owners, realtors and mortgage brokers to become more creative in their financing. As a result, many sellers have become acquainted with sellers' concessions for the first time. One such concession used to attract buyers while simultaneously making their property more affordable is for sellers to "buy down" the interest rate for the benefit of the buyer for all or a portion of the loan term and is the subject of this month's newsletter.

WHAT IS A BUYDOWN?

A "buy down" is the payment of discount points to a lender in exchange for a reduced rate of interest on a loan. (A discount point is 1% of the loan amount). **It is important to note that a reduced interest rate, not only affords buyers a lower payment, it also allows them to qualify at the newly lowered rate.** Both buyers and sellers can buy the rate down. To a mortgage broker, discount points are the opposite of rebates: they're monies paid to the lender instead of being paid out by the lender.

TWO KINDS

As hinted at earlier, there are two kinds of buy downs - permanent and temporary. Permanent means for the life of the loan, whereas a temporary buy down is typically for 1, 2, or 3 years. A buy down for 2 years is referred to as a 2-1 buy down and one for 3, is notated as a 3-2-1.

HOW MUCH FOR HOW MUCH?

Buy downs are not cheap: the buy down rate of exchange is not 1:1. As a "general rule of thumb", **one discount point will lower your fixed interest rate .25% or your adjustable rate .375%.**

TO BUY OR NOT TO BUY

Again, as a rule of thumb, it's probably **not to one's benefit** to buy the rate down if—

- you're not going to stay in your home more than 3-4 years.
- you think you'll refinance before then.

On the other hand, **it may be worthwhile considering—**

- if you plan to stay in you home for more than 5 years.
- if you plan to keep your property as an investment after you move.
- or you don't plan on refinancing in the near future.

BREAK EVEN ANALYSIS

The definitive way to see if a buy down is of benefit is to do a break even analysis. To do this, you simply divide the amount required to buy the rate down by the difference in payment between the interest rates being considered. This yields the number of months it would take to recoup your investment or to break even on your buy down.

OTHER CONSIDERATIONS

Tax deductibility Is another factor to consider. For a home loan purchase the points paid can typically be considered tax deductible in the year they are paid; however, with a refinance loan, the points paid can only be deducted over the term of the loan.

MORTY'S MAILBAG

Q. I hear people bandy about the term sub-prime loans, but what makes a loan sub-prime. I figure if anyone can explain this, a mortgage broker should be able to.

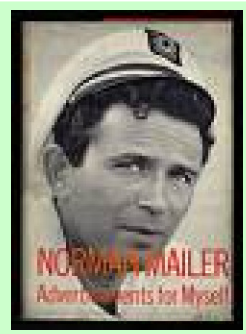
A. There are a number of things that will qualify one (or their loan) as sub-prime. Among them are:

- A borrower who has a poor credit history or low score. The cut point for most "A" paper loans is a FICO score below 620.
- A borrower who has insufficient income for their obligations, that is with Debt to Income Ratios (a.k.a. DIRs) above 40-45%
- A borrower who has a recent bankruptcy or foreclosure (usually less than 2 years, although with stated income loans and LTVs > 80% it may be 4-7 years).
- A borrower who has been late on their mortgage within the past two years.
- A borrower who has been late on their HELOC more than once in the past 12 months.
- A borrower who has failed to meet past obligations: 30, 60, 90 day "lates", charge-offs, collections, tax liens, judgments, etc. A borrower who does not meet one or more of prime lending requirements

The last bullet point is a catch-all qualification because there are so many variations from lender to lender and I couldn't think of any other way to phrase this.

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.

An Advertisement for Myself



In 1959, Norman Mailer wrote a book titled **Advertisements for Myself.** It was such an unusual title it stuck in my memory banks all these years. The reason that I mention it here is because the other day a potential client asked me a very valid question, yet one that I am rarely asked by customers: Why should I consider doing a loan with you? I proceeded to give him the politically correct answers that appear on my website **www.mortgagestraightTalk.com** under WHY ME? But then I began to think, why not do an advertisement for myself?

With apologies to David Letterman, here is my Top Ten List.

Top 10 Reasons Why You (or Someone You Know) Should Consider Doing a Loan with Me

1. Why pay retail when you can buy at wholesale?
2. I represent the 26 largest lenders in the nation, e.g.

Acoustic	First Franklin
Argent	Greenpoint
Aurora	Indymac
Bank of America	Meritage
BNC	MLN
Chase	Novastar
CMG	New Century
Citibank	SBMC
Colonial	Sun Trust
Countrywide	Washington Mutual
Decision One	Wells Fargo
Downey Savings	WMC
Equifirst	World Savings

3. I can do it in less time than ______.
4. I can minimize your mortgage payment.
5. I can maximize your tax shelter.
6. I can maximize your cash flow.
7. Most loans are zero point loans
8. Closing costs (non-recurring fees) approximate only $3,000 **OR** may be zero, if you wish.
9. Once I have your info on file, I can refi additional real estate with a minimum of muss and fuss on your part.
10. I want you as a client.

DID YOU HEAR THE ONE ABOUT THE…?

Thomas Carlyle, a 19th century author, referred to economics as "the dismal science" and reading about mortgage related topics is just about as mirthful. So, to leaven the subject matter and leave you with a smile (hopefully) on your lips, I'm instituting a new feature, this month—a joke.

One night a teenage girl brought her new boyfriend home to meet her parents, and they were appalled by his appearance: leather jacket, motorcycle boots, tattoos, pierced nose, etc. Later, the parents pulled their daughter aside and expressed their concern.

"Dear," began the mother, groping for just the right phrasing, "he doesn't seem very nice."
"Oh please, Mom," replied the daughter, "if he wasn't nice, why would he be doing 500 hours of community service?"

If you'd care to share one that you've heard, please email it to me at.... Rod@mortgagestraightTalk.com

NEXT ISSUE'S TOPIC:
FAR-OUT LOANS (AS IN 40 & 50 YEARS)