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mortgagestraightTalk.com

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30 Yr. Fixed Conform. & Jumbo	5.625 & 6.25%
5/1 ARM Conform. & Jumbo	5.5 & 5.75%
Prime Rate	8.25%
MTA Index	4.827%
COFI Index	4.382%
Home Ownership Accelerator Index	5.348%

Morty's Bench Marks - 11/30/06

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

December is said to be "the most wonderful time of the year". I hope it lives up to your expectations.

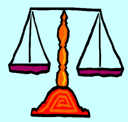
CURRENT EVENTS

Last month's interest rates remained largely static, despite November's topsy-turvy conditions. During week 1, the fixed income markets were speculating on the possibility that the Fed might cut rates as soon as the first quarter of 2007, but when the latest unemployment figures came out showing the jobless rate hitting a 5-year low, along with rising wages, the notion of a rate cut was shelved. [For an explanation of the trade-off between inflation and unemployment, see Current Events in the September newsletter (vol. 3 issue 9 on the website)]. With the Fed locked in an ongoing battle with its nemesis—inflation, the thinking was that, if anything, it might raise rates, were the economy to pick up steam next year. Then, mid-month, the Labor Department's Consumer Price Index, a gauge of inflation at the retail level, was released showing a decline of .5% in October's core inflation, commensurate with September's decline. The move, as expected, was due to another drop in energy prices. And once again, the notion of a soft landing for the capital markets and the prospect of a rate cut were renewed. The next meeting of the Federal Open Market Committee (FOMC) is on December 12th and while the Fed's position is to remain data dependent" it will, at least for now, "stay the course" (where have we heard that phrase before?) and leave rates unchanged, for now.

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

Anthony Hsieh, the president of Lending Tree.com, recently likened the mortgage industry to the fashion industry in that lenders seem bent on introducing new products as frequently as Parisian couturiers show their new spring, summer, fall, and winter lines. In truth, with interest rates hitting 45 year lows between 2001 and 2004, homeowners refinanced almost as frequently as they changed their seasonal wardrobes. Hsieh further observed that the ostensible purpose of introducing new mortgage products, as with clothing designers, is to grab the attention of consumers because as he put it, "…you have to be different. Thirty-year mortgages are boring". And like many of the avant-garde designs featured in the fashion magazines, consumers may be curious about them but that does not necessarily mean they'll buy them. Two of the more extreme mortgage products are the focus of this month's newsletter: they are the 40-year mortgage (which has been around for a few years) and the recently introduced 50 year term mortgage.

VALUE vs. GIMMICKRY



Their usefulness is divided into two camps. One side claims that they're particularly beneficial in costly markets where affordability is an issue because they offer low monthly payments. The other side gainsays their worth because they build equity at a snail's pace and consumers who keep these loans beyond the low-cost introductory periods end up paying far more in interest than they would with a traditional 30-year fixed-rate mortgage. The "pro" side claims these products are "for people who know what they are doing" and ironically they make sense as short-term vehicles. The idea is to qualify for low monthly payments and refinance before higher interest rates kick in. The cons profess they're little more than a gimmick devised to drive loan origination volume and that the likelihood of keeping either of these loans to term is almost nil since the average loan turnover in the state is 3.7 years and the average holding period for properties in California is slightly less than twice that at 6.3 years.

VARIATIONS ON A THEME

While true 40 & 50-year term adjustable loans exist, most are variants of 30-year balloon loans that are based on a 40 or 50-year repayment schedule. They're called 40s due in 30, or 50s due in 30, respectively. There are several variations, as well. A typical 50-year product, for example, begins as a fixed loan with a low interest rate, but becomes adjustable after five years with subsequent Interest rate adjustments tied to the London Interbank Offering Rate (LIBOR) plus 2¾%.

IS 50 THE NEW 30? OR IS 40?

The answer is neither! While 40-year loans have become a tad more common, they comprise a very small segment of the market at present. Not surprisingly, when mortgage terms approach the half-century mark, buyers are scarcer still.

PRICING

To give you some idea of what this translates to in real world numbers, let's compare a 50 year adjustable mortgage due in 30 years with a traditional 30 year fixed rate loan both with a loan amount of $500,000. The starting interest rate on the 50-year loan would likely be 7% as compared to 6.5% for the 30-year fixed. The 50-year loan would begin with a monthly payment of $3008 compared to $3160 for the traditional loan. After 30 years, borrowers with the traditional loan would own their homes free and clear. Those with a "50 due in 30" would face a balloon payment of $388,036. As you can see from the numbers in the above example, both the pros and con points of view have merit. The one thing that both can agree on is that interest compounded over 50 years is truly wondrous (for the lender) and staggering for the borrower).

MORTY'S MAILBAG

Q. I was told that all mortgages are property liens and, as such, they have two integral parts. If this is so, what are they?

A. It's true: they are the promissory note and the security instrument. The promissory note is the evidence of your debt. It's an I.O.U. that specifies exactly how much money you borrowed as well as the terms and conditions under which you promise to repay it. (I am often surprised at how few borrowers know what a promissory note looks like: I routinely ask them to forward me a copy of their "Note" to see if they have a prepay penalty on their 1st when they are looking to refinance).

The security instrument component gives your lender the right to take whatever steps necessary to have your property sold in order to satisfy the debt. The legal process triggered by the security device is called foreclosure.

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 (TAKE 2)

A number of readers were amused by last issue's Top Ten List [of reasons why you (or someone you know) should consider doing a loan with me] but a number of readers were confused by #3 wherein I stated that "I can do it in less time than ______. The blank was there for the purpose of filling in the name of whomever else one might be considering.

Coincidentally, we just finished a purchase money loan for a couple in 12 business days including a rapid rescore of one borrower's FICO and a resultant 22-point rise which took 7 of those days. Had we not been held up on account of this we would have completed it in even less time. [Realtor readers please note.] My personal best is 8 days start to finish. But, I believe I can beat that—try me. As it says on my business card I sell Money AND Service.

A BELATED THANKSGIVING THANK-YOU

I'd like to take this opportunity to say thank you, to you, my clients. While many other brokers have experienced a diminution in both their activity and their income, it has been another banner year for us. A goodly portion of my business has come from repeat customers, a portion from fixing other brokers' mistakes, and a portion from doing the "tough" loans that no one else seemed to be able to do but an astonishing 95.62% of it has come via referrals.

THANK YOU!

As I'm fond of saying: because we do GOOD business, BUSINESS IS GOOD!

THIS MONTH'S OFFERING

From 23 Across of the New York Times Crossword Puzzle comes this month's joke: Punch line to "What's the longest sentence in the English language?" The answer (only 3 letters long) — I do!

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

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NEXT ISSUE'S TOPIC:
HOW ONE ANSWERS THE AGE-OLD QUESTION OF "WHAT'S YOUR RATE?" OR LOAN PRICING DETERM INANTS.