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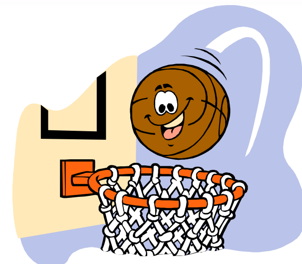
30 Yr. Fixed Conform. & Jumbo	6.125% & 6.25%
5/1 ARM Conform. & Jumbo	5.75%
Prime Rate	7.5%
MTA Index	3.88%
COFI Index	3.347%
Home Ownership Accelerator Index	4.631%

Morty's Bench Marks - 3/13/06

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

March Madness means different things to different people. To sports pundits it refers to the NCAA basketball tournament; to some of my Irish friends it's that time of year to celebrate the "wearin' o the green" and imbibe until they're about the same color, to me, it means that it's nearly the middle of the month and I'm just sitting down to write this newsletter.

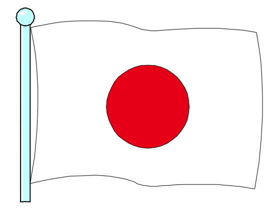


CURRENT EVENTS

Those of you who have had 2nds tied to the Prime Rate have no doubt been displeased to see the continuous upward creep in your payments as the Federal Reserve Board continues its stair-step hikes to the Fed Funds rate, which in turn, increases the Prime Rate. Unfortunately, the trend has caught the attention of the European Central Bank (ECB).

In case you didn't know, the ECB is the European equivalent of the Fed since they converted to the Euro. Why this is significant is because, in recent times, as much as 65% of our Bonds have been purchased by foreign investors seeking higher rates of return than they can gain in their own country or elsewhere. This foreign buying has helped our Bond prices stay high, which in turn have kept home loan rates very attractive.

Just as the Fed moves rates in cycles, it's never "one and done", so goes the European Central Bank, as well. Now, however, foreign and particularly European investors have noted with the rate hikes in the U.S. winding down it might behoove one to take advantage of the ECB hikes and start keeping some money invested a bit closer to home. Additionally, there is talk that the Japanese may follow suit. When foreign investors stop buying as many of our U.S. bonds it sends bond prices lower and home loan rates higher. (Remember there is an inverse relationship between the price of bonds and interest rates).



Despite what I wrote above, the hikes are not over—just winding down. When the Fed meets on March 27 it is already a forgone conclusion that there will be another ¼ bump in the Fed Funds Rate and ultimately to the Prime. One more is likely after that, in May, providing inflation appears contained.

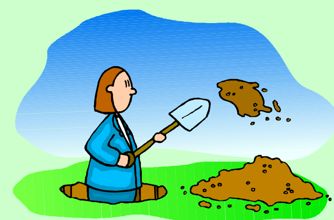
THIS ISSUE'S TOPIC:

THE NEW REVOLVING CREDIT REGULATIONS

"You want 21 percent without risk? Pay off your credit cards." --Andrew Tobias

As with every New Year, there are a concomitant number of new laws and regulations. One, that may surprise a number of people this year, is that the minimum monthly payments on revolving credit (credit cards) have tripled. The new banking regulation is designed to tighten credit and combat inflationary pressures facilitated by credit card issuers.

Heretofore, the minimum payment one could make on one's credit card balances was in the range of 2-5% of the outstanding balance. The insidious aspect of compound interest is that at 19.8% (or more) per annum an individual making the minimum monthly payment of say $16.58 with a balance of $1000 would need 27 years to retire this debt, and that's if the individual incurred no new charges. In years past, this was a cash cow for many credit card companies because as is evidenced by the example given all but a small portion of these payments went to servicing the debt (interest). With gas prices increasing, bankruptcy laws tightening and interest rates rising…it's really no wonder that the average default rate on credit cards is climbing. According to the American Bankers Association, nearly 5% of credit card accounts had payments that were 30 days or more past due last year. Missing payments on credit cards can be more costly than you think. The late payment will result in the creditor imposing a late fee—on average $27—and more importantly, they will bump up the future interest rate you are charged. And get this…being late on one credit card may trigger the other creditors to increase the interest rates as well, even if you've made the other payments on time. This is known as the "universal default" clause, and is disclosed in the infamous fine print on credit card agreements. Credit card companies can monitor your financial activities and if they feel that the risk of being repaid is high, they have the right to increase your rate. The state in which the creditor is located may have an impact on the interest rate too—take a look at your credit card statements to see where they are based. Notice South Dakota or Delaware? They are among several states without usury laws, meaning there is no limit on the interest rate charged. The APR on cash advances can be truly staggering—in the range of 35 to 50%.



You are certainly not alone, though. The latest statistics show Americans owe $798 billion on credit cards. Broken down, the average credit card liability per household was $9,312 in 2004 (that amount has increased 116% in the past ten years) and approximately 35 million Americans pay only the minimum payment required each month.

So, What Is One To Do?

Start by keeping your card balances well below the maximum credit limit…or if you can keep from charging it up ask your creditor if you can have a higher limit. Keeping your balance below your maximum limit will help improve your credit score. Next, make a list with the name of the creditor, the balance, the minimum payment due, and the interest rate. Review the list and pay off as many small accounts as possible. Then, make the minimum payments on all credit cards except the highest interest rate credit card. Once the first credit card is paid in full, continue this process until all credit cards are paid in full.

Another measure you might consider once you have your credit card payments under control is converting some of your credit cards to debit cards. With debit cards the actual amount of the purchase is deducted from your bank balance. This has two consequences it forces you to wean yourself off of minimum payments and you'll be less inclined to use your credit card to purchase a $30 item (like say a tank of gas) with a credit card when you realize that if you made the minimum payments that tank of gas will have cost you $36 by year's end.

Yet Another Solution –
The Debt Consolidation Loan

For people strapped with payments on numerous revolving and installment debt accounts a home equity debt consolidation loan or refinance may be a real life saver. People need to remember they pay their mortgages with dollars not interest rates. Lower interest rates usually translate into lower mortgage payments, but not always. Such is often the case where a refinance involves debt consolidation. As an example, a couple may benefit greatly if they have a current mortgage balance of $200,000 @ 6.5% and a $100,000 in credit card and installment debt. Their monthly payments might total $3000 per month. But, if they were to refinance their mortgage into a $300,000 mortgage ($200,000 + $100,000 cash out) @ 7.5% (a full 1% higher than what they now have) their payment would be $2097 per month, thereby saving them $903 per month. The monthly savings would actually be even greater, because now all the interest that they would normally pay on their credit card and installment debt is now tax deductible with their new home equity loan. Reducing a borrower's cash outflows from 50% to a 40% of their income effectively puts ten cents of each dollar back into the borrower's pocket every month. More importantly, it often saves a borrower's home and credit.

MORTY'S MAILBAG

Q. Could you explain what a section 32 loan is?

A. No problem. Section 32 loans are defined by the Federal Trade Commission (FTC) as high-rate, high fee loans for which it has established certain requirements. They derive their name from the fact that the rules for these loans are contained in Section 32 of Regulation Z. The rules for these loans apply to **loans of $250,000 or less**. These are essentially hard money loans. (See Volume 3 issue 1 for a discussion on hard money loans). A loan would fall into the section 32 category if:

* It is a **first-lien** loan and the annual percentage rate (APR) exceeds the rate on Treasury securities of comparable maturity by **8%**. The yield on a 30 year Treasury bond today is 4.73%. so if the APR exceeded 12.73% it would qualify as a Section 32 loan.

* It is a **second-lien** loan and the annual percentage rate (APR) exceeds the rate on Treasury securities of comparable maturity by **10%**, 14.73% today.

* If the total fees and points payable by the consumer exceed the larger of **$528** (for 2006) or **8%** of the total loan amount.

Section 32 loans require that the borrower receive a number of disclosures at least 3 business days prior to the loan being finalized. Among them are the APR, the regular payment amount, credit insurance premiums and balloon payments, if allowed.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. I'll answer your question in real time but the question and answer will appear in the next issue for the benefit of all. Questions may be forwarded via email, phone or fax. (See front of issue for phone and fax numbers). Morty's email address is ... morty@mortgagestraighttalk.com

NEXT ISSUE'S TOPIC:

REVERSE MORTGAGES

NEW! IMPROVED! FREE!

mortgagestraightTalk.com

That's right all the advertising buzz words that you've come to know and love apply to my new web site!

- It has been updated to make it easier to read and more user-friendly.
- Back issues of the newsletters have been archived and are accessible for your convenience.
- You can also fill out and download loan forms and disclosures on line, if you wish.
- There are also hyperlinks to the Home Ownership Accelerator. (Even if you think you have the best mortgage it's now obsolete with this product.)