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30 Yr. Fixed Conform. & Jumbo	6.375 & 6.625%
5/1 ARM Conform. & Jumbo	6 & 6.25%
Prime Rate	8%
MTA Index	4.1%
COFI Index	3.6%
Home Ownership Accelerator Index	5.0%

Morty's Bench Marks - 5/12/06

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

CURRENT EVENTS

The Fed as expected raised the Fed Funds Rate to an even 5% at its May 10th policy meeting which will translate into an 8% Prime Rate. Will there be another .25% hit in June is anybody's guess. As you may recall from March's newsletter, the European Central Bank (ECB) had begun hiking rates which increased the London Inter Bank Offering Rate (LIBOR) index and Japan's Central Bank, as conjectured followed suit, last month. These developments would augur against the likelihood of any further rate increases on the Fed's part, but with oil hitting $73 a barrel and the yield on the 10 yr. Treasury bond crossing the 5% threshold in April, the Fed may feel a need to raise it another quarter point to keep inflation in check. May's hike was a foregone conclusion but I'm leaning against the June hike. We'll soon see who's right.

THIS MONTH'S TOPIC:

THE VARIETY OF 1st MORTGAGE LOAN DOC PROGRAMS AVAILABLE

Just as people come in all shapes and sizes so do their employment pictures, income documentation, asset portfolios, desire for ease and privacy. The lending community, in an effort to make their products available to more customers and to achieve a better "fit", has risen to the challenge. Now, more than ever before, there are a variety of loan doc programs and this, coincidentally, is the subject of this month's newsletter. Most everyone is familiar with a Full-Doc type loan and many people are familiar with Stated Income loans but probably don't fully understand them, and many more have no idea that there are also SIVAs, SISAs, No Ratios, NINAs, and No Docs. Even fewer, understand the features and benefits of them.

The limited scope of this discussion will try to touch upon the salient features, benefits, credit ranges, and costs of the different 1st mortgage programs available to the borrower. The loans will be (presented more or less) in ascending order of price. Basically, the less documentation required, the riskier the loan for the lender and consequently, the lender requires a slightly higher margin or interest rate to offset the added risk. Sometimes, however, with low Loan to Values (LTVs) below 65% there are no additional hits for loans requiring minimal documentation such as No Ratios, NINAs, or No Docs because the lender feels that the collateral equity is sufficient.

Full - Doc Loans are the most hassle because of the documentation required. Typically, they condition for proof of the big three: Employment, Income, and Assets. This means payroll stubs, W-2's, Tax Returns, Award Letters; Verification of Employment (VOE); bank statements, stock and bond accounts, the cash value of life insurance policies (if any), retirement accounts, real estate owned, rental agreements, etc. Additionally, one will need to furnish proof of homeowner's insurance, and in cases of divorce or insolvency—divorce decrees, evidence of child support and/or alimony payments or bankruptcy schedules. Because the documentation is so rigorous, they're the least risky for the lender and subsequently the cheapest. The mid-FICO range is as low as 500 for sub-prime and 620+ for "A" paper.

Stated Income Loans allow one to merely state his (or her) income, but the income has to be within reason. The underwriters go to websites like www.salary.com to verify income for a given occupation. If it's plausible, they'll probably sign off on it. Obviously, they're not about to believe that the school crossing guard earns a six-figure income. The purpose of these kind of loans is not to fudge one's income but rather to make it easier for self-employed & non-salaried individuals who get 1099s, instead of W-2s, to qualify on the basis of their income. This is often not easy to do for people who are sole proprietors, have partnerships, small business owners, or those in commission-based professions like say, most mortgage brokers. Documentation may be a bit onerous if one is

self-employed, in a partnership, or owner of a corporation by requiring tax returns for the past two years and Profit & Loss statements. This documentation type is good for self-employed borrowers who actually make sufficient gross amounts of income, but write off a lot on their taxes. They have the capacity to pay the loan back, but what they file with the IRS doesn't reflect their real income. "Stateds" often require a borrower to sign a 4506 form that goes to the IRS to verify that the income they claimed coincides with what the borrower shows on their tax return. In addition, they will need to provide a copy of a business license or a letter from an accountant/CPA affirming that they have done their taxes for the past two years.

"Stateds" break down into two sub-categories: Stated Income/Verified Assets (SIVAs) & Stated Income/Stated Assets (SISAs). The former might be a good fit for someone with substantial income rental property. Again, the latter, is apt to be slightly pricier because of the lesser documentation. Generally speaking, people who have incomes of a certain size generally have assets that are commensurate with their income, but there are exceptions to every rule and this is where SISAs might be of use. Reserves in the form of liquid assets like bank accounts, stocks, bonds, life insurance policies, 401ks, IRAs etc. equivalent to 3-6 months of the loan's payments for Principal/Interest/Taxes/Insurance(PITI) are likely to be the norm with this type of mortgage documentation.

Some sub-prime "stateds" will go as low as 580 while "A" paper loans will require one's mid-FICO to be above 620.

A **No Ratio Mortgage** is also known as a No Income/Verified Assets (NIVA) loan and is a "middle ground" product between a Stated Income and a No Doc mortgage. It is also one of the most misunderstood. Although this type of loan documentation is not intended as a means to qualify marginal borrowers, it is sometimes a useful option if one is carrying more debt that a traditional mortgage loan will allow. When a client's current income is low relative to their debt or, more frequently, the client has income which is impossible to verify as in, say the case of an exotic dancer, a No Ratio loan provides the solution.

With these mortgages, the borrower doesn't declare income. No pay stubs, no W-2s, no tax returns. Think of it as the "don't ask, don't tell mortgage: the lender doesn't ask how much the borrower earns, and the borrower doesn't tell. They are called no-ratio mortgages because the lender doesn't compute the borrower's Debt to Income Ratio (DIR). The lender can't compute it because the lender doesn't know the borrower's income. Mortgage Underwriters analyze your Debt To Income ratio (DTI) as one of the key factors in determining loan approval. Your debt ratio is calculated by dividing your total monthly payments by your monthly pre-tax income. If your ratio is 40% or more, a traditional mortgage is very difficult without pristine credit and substantial reserves for PITI.

The borrower does list assets—money in the bank, stocks, and bonds, real estate, ownership stakes in businesses. The No Ratio borrower has good credit and abundant assets that make up for the lender not considering the borrower's income information. This loan can offer a quick and easy process to borrowers for whom gathering documentation could be a logistical nightmare as in the case of a borrower who may own a corporation or be part of a business partnership. No ratio loans are often the right call for wealthy people with complex financial lives, retirees who live off investments and people whose lives are in flux because of divorce, recent death of a spouse, or career change. It is also for borrowers who do not wish to disclose their income, consequently, there is no Debt-To-Income Ratio (DTI) for the lender to consider. No Ratio loans do not require one to sign IRS form 4506.

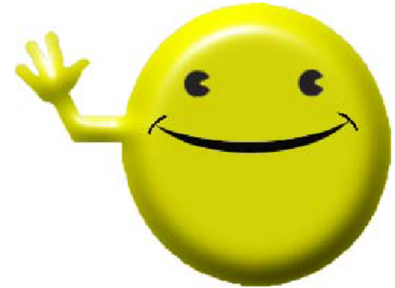
Middle credit scores of 640 and above are the norm for these programs though some may go as low as 620 with pricing bumps. Sub-prime borrowers need not apply.

Next on the acronym parade is the **No Income/No Asset (NINA).** Because one is not even stating income, these loans are apt to be slightly pricier than the "Stateds". Verification of employment, however, is necessary. To qualify, the borrower will necessarily need to have a low Loan To Value (LTV) and/or a mid-FICO of 620+. With a FICO this low, unless one has a very low LTV, one can expect to pay more for the loan. A minimum mid-FICO score of 660+ is more often the norm. Again, sub-primes are excluded from this category.

No-Doc Loans are the epitome of ease and privacy. They require the least documentation and are for borrowers with good credit and/or low Loan To Values (LTVs). With a No Doc loan, the borrower provides their name and social security number, along with the information regarding the property being purchased. The rest is up to the lender. For the most part, you must have a superior credit history in order to be considered for this loan though there are lenders that will allow a 620 mid-FICO with higher rates. Ideal candidates for No-Docs are retirees because there's no verification of employment as there is with a NINA. As for the sub-prime borrower who wants a No-Doc, there's no way.

Short of that, as you can see from the aforementioned there's something out there to accommodate just about every borrower.

NEXT ISSUE'S TOPIC: A Reprint of "What Most of You Don't Know about Money & Mortgages"



MORTY'S MAILBAG

Q. If I have furnished my loan broker with bank statements why is it necessary for me to obtain a Verification Of Deposit (V.O.D.) for a lender?

A. There are a couple of potential reasons that might account for this request. One possible scenario is one where a borrower's "stated" income does not jibe with their actual income. Since people usually deposit their payroll checks into their checking account an underwriter could easily deduce from the deposits on the bank statement what their actual income was. If this amount was at variance from what they "stated" it would be sufficient reason to decline the loan.

Another scenario is one involving a purchase. Lenders want to make certain that the down payment on a purchase is not from borrowed funds or the result of money laundering. Consequently, they request a V.O.D. showing that the funds are seasoned and exist because of the borrower's thrift or sale of an asset(s) rather than their duplicity or criminal enterprise. (Seasoning usually means that the funds have been on deposit for at least 60-90 days and precludes their being borrowed as it would show up on the buyer's credit report). In a related fashion, an exception to this could be a case where a prospective buyer is gifted the down payment from a generous relative but, this would necessitate an accompanying "Letter of Gift", filing a form with the IRS so that the benefactor did not incur a gift tax and specifying that the gift was necessarily from a family member and not some other personage.

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.