

# Newsletter - Vol. 3 Issue 6

## June 2006

[mortgagestraightTalk.com](http://mortgagestraightTalk.com)

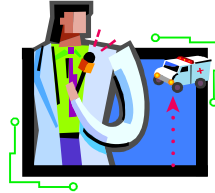
Tel: 760-726-4600 Cel: 760-717-8584

Fax: 760-639-0785

[Rod@MortgageStraightTalk.com](mailto:Rod@MortgageStraightTalk.com)

30 Yr. Fixed Conform. & Jumbo	6.5%
5/1 ARM Conform. & Jumbo	6.125 & 6.25%
Prime Rate	8%
MTA Index	4.143%
COFI Index	3.624%
Home Ownership Accelerator Index	5.107%

### CURRENT EVENTS



The coming month should prove to be a very interesting one in the real estate community. As schools across the country let out it typically marks the beginning of the summer exodus known as "moving season". In certain areas this will further fuel already hot markets, in others, realtors will be keeping a hopeful and watchful eye.

Refis have dried up considerably, as anyone who wanted to refi certainly had ample time and lower rates in which to do so during the past 6 years. The first five months of this year has been sluggish for new home sales as buyers have witnessed continuous bumps to the Prime Rate resulting in escalating mortgage payments and diminished affordability. The resale sector has been soft as well as it's taking an average of 75 days to sell a single family home, according to the San Diego Association of Realtors.

A lot of people in the real estate community question whether the Fed realizes how adversely this sector has been affected. At one point housing sales and the mortgage market were the only bright spots in an economy that has been moving sideways for the past 5 years. At best, we seem to be limping toward prosperity.

With the Fed Open Market Committee meeting on June 29 & 30 it will be interesting to see if it takes a break from the measured rate hikes that have been part of the Fed's philosophy to curb inflation for the past 24 months.



### Morty's Bench Marks - 6/01/06

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

As I reported last month, the likelihood of any further rate increases on the Fed's part would seem at an end but with gas prices topping \$3.75 a gallon in many parts of the country 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. Time will tell.



### THIS MONTH'S TOPIC: A GOLDEN OLDIE

Those of you who remember Johnny Carson undoubtedly recall that every so often when Johnny decided to go on vacation, NBC would rerun previous shows and titled these show aired during his hiatus "The Best of Carson" Much like Johnny, after writing 18 Mortgage Straight Talk newsletters, I'm taking a break because my layout editor is going back East for his friends' wedding this month and because I'm tired. As a result, this month's topic is a reprint of "**What Most of You Don't Know about Money & Mortgages**". For many of you this will

constitute a summer rerun, for others, an eye-opener. In brief, it's a description of everything the lay borrower needs to know about the mortgage market and its practitioners. As a reminder, all issues of the newsletter are posted and archived online at [www.mortgagestraighttalk.com](http://www.mortgagestraighttalk.com) under the newsletter menu button.

## WHAT MOST OF YOU DON'T KNOW ABOUT \$ AND MORTGAGES FOR MOST OF YOU, WHAT YOU KNOW IS WRONG!



I can say this from a professional standpoint because I SELL MONEY! It's what I do for a living. My actual title is mortgage broker. It's not rocket science, but a lot of people would have you believe otherwise. It's been said that intelligence is the ability to take something confusing and make it simple. I'm not a genius, and I don't profess to know everything there is to know about real estate finance, nobody does. But I can explain most of it simply enough so that anyone can understand it. But first, it's important to correct some of the most widely held misunderstandings with regard to real estate finance because for most of you, MUCH OF WHAT YOU KNOW IS SIMPLY WRONG!

### IT PAYS TO SHOP AROUND FOR A MORTGAGE RATE – NOT!

It takes time to shop around and TIME IS MONEY. Even if you have a lot of free time, it's futile because there are 254 lenders in Southern California and the rates change daily. Even if you managed to call all of them in one day YOU WOULDN'T necessarily get the lowest rate. The reason is that the lender with today's best rate, may not be the best rate tomorrow.

Even ethical brokers' quotes can be misleading because the 5.25% rate they may quote you is (as you know) for today, only, and by the time your rate is locked or your loan docs are in place, it may be 6.25%.

This is precisely what happened in a little over a week's time in July of '03. This is another reason I don't send flyers out quoting rates because by the time it hits your mail box it's as out of date as last week's newspaper.

### IF RATES ARE IRRELEVANT, THEN WHY DO BORROWERS CONTINUE TO SHOP FOR THEM?

IT'S BECAUSE MOST BROKERS TRY TO SELL RATES RATHER THAN EXPERTISE AND SERVICE. When a customer is unable to determine how a product or service is better, worse or different from a competitor's, a confidence gap occurs and the customer will necessarily default to price.

### IT REALLY PAYS TO SHOP AROUND FOR A BROKER – TRUE!

As brokers, we all have access to the SAME programs, the SAME lenders and the SAME rates, (give or take a 1/8 of a point, which equals only \$7 per month per \$100,000 borrowed). Since the wholesale rates are essentially the same, the variation in rates to the borrower is solely due to what the broker is looking to make on your loan. Typically, brokers price loans with one point built into the rate. This is called rebate pricing: it's a commission paid to the broker by the lender for placing the loan with them. This is referred to as a zero point loan because the lender, not the borrower, has paid the origination fee. Every broker is entitled to make a point on a straight forward



refinance or purchase; more if it's especially difficult, complicated or small, because the work on a \$50,000 loan and a \$500,000 loan is essentially the same. The major difference is that the latter pays ten times better. And, as we all know, there's no difference in the product. The \$100 bill that you borrow from a bank or from a broker is the same.

### **RATES ARE IRRELEVANT (PART I)**

WHY? In shopping for a rate, brokers are very much aware of what you're doing and if you shop long enough, YOU'LL PROBABLY END UP WITH THE BIGGEST LIAR. "Bait & Switch" bankers and brokers think that if they offer the lowest rate, you'll do the deal with them. Many of you do. Naturally, the problem arises when you find that they can't deliver as promised. They'll cite a laundry list of reasons as to why your loan is "different" from the norm e.g., your FICO score is too low or your LTV and/or DTI ratios are too high, while they try to back out of what was promised and try to up sell you into something else. By this point you've probably paid for the appraisal and you just want to be done with the whole mess. You certainly don't want to start the process anew with possibly another 'liar", so you reluctantly finish the loan with them.

### **RATES ARE IRRELEVANT (PART II)**

Until it's in writing in the form of a Good Faith Estimate (GFE), you have nothing—it's just so much talk and as we all know talk's cheap. Even when the rate is in writing, you're still not home free. Here's why. Your nominal interest rate may appear to be 5 ½% but the Annual Percentage Rate (APR) is 7% which means that the loan has high closing costs to offset the low interest rate which has raised the effective interest rate. Or sometimes a borrower is told that the lender will do a zero point loan (one with no origination fee) when in reality the lender has renamed it a discount, admin or underwriting fee. Mortgage bankers are notorious



for this. They advertise phenomenally low rates on TV for a 30 yr. fixed rate loan that is in reality an adjustable rate loan whose rates are fixed for 2 years with a screen full of disclaimers that appear for all of two seconds and for which 95% of the viewers will not qualify.

### **RATES ARE IRRELEVANT (PART III)**

Some brokers, legitimately tout abnormally low rates or "teaser rates" to lure you in. These rates apply for the first payment only and then the loan "adjusts" by jumping 3 or 4% to the actual rate. In my opinion, quoting such rates is an insult to a borrower's intelligence because they bear no relation to the actual rate. You've undoubtedly heard the expression, "Figures don't lie, liars figure".

### **RATES ARE IRRELEVANT (PART IV)**

Why? Because very few people ever pay their mortgages off. By this I'm NOT referring to refinancing into a new mortgage. You're probably asking yourself, if I don't pay it off, who does? WHAT REALLY PAYS OFF MOST PEOPLE'S MORTGAGES IS INFLATION AND APPRECIATION. Inflation allows you to pay back your mortgage with cheaper dollars than when you took it out. Appreciation pays it off by increasing your equity. In 2003, homes appreciated on average 38% in San Diego County. Show me a borrower that reduced their mortgage 38% in a year by making payments. Borrowers provide little more than interim financing, while inflation and appreciation pay down your mortgage,



which is why I say for the last time: INTEREST RATES ARE LARGELY IRRELEVANT.

## **BANKS ARE CHEAPER THAN BROKERS OR WHY PAY A BROKER'S COMMISSION?**

The answer's simple – THEY'RE NOT and YOU DON'T. The lender pays the broker's commission for placing the loan with them in the form of a rebate. It's really this simple: WHY PAY RETAIL, WHEN YOU CAN BUY AT WHOLESALE?

## **YOU GET WHAT YOU PAY FOR, DON'T YOU?**

Often, far from it. Remember, price is what you pay; value is what you get. For all the people who are price and rate conscious, I have but one question for you: DOES PRICE MATTER, IF YOU DON'T GET VALUE?



## **BANKERS VS. BROKERS**



No one lending institution does all things well. Most brokers represent 15-20 lenders. IT'S BETTER TO HAVE A CHOICE WHEN IT COMES TO PRODUCTS, SERVICE, RATES AND ABILITY TO QUALIFY. On the other hand, if a banker declines your application, you get to start the whole process all over again.

## **THE GOOD, THE BAD, AND THE UGLY**

All loan brokers are not created equal. If you've ever had a bad experience in getting a loan, you know this to be true. In my business, a borrower is likely to come in contact with four kinds of people, the CAPABLE, the LAZY, the INCOMPETENT, and the UNETHICAL. By this statement alone, I think you know in which group I place myself and, sadly, it's also the minority.

## **IF THIS WERE ROCKET SCIENCE, ROCKET SCIENTISTS WOULD HAVE A BAD NAME.**

Because 92% of the people in real estate don't last a year, there is a steady stream of new blood into the industry OR (depending on your point of view) one replete with INCOMPETENTS who have yet to learn the business, master their product knowledge or worse still do it part – time. Not surprisingly, they recommend the wrong product or can't get you qualified. Don't believe me? Ask them how to calculate an APR, 90% won't have a clue.



Then there are the LAZY. Brokers who, even though you've entrusted them with your most expensive asset, are too remiss to investigate a better rate or program and use the same lenders over and over again. They tend to habituate because it's easy. You hear it in their speech. They say things like "I THINK THIS OR THAT MAY BE THE CASE" because they've never bothered to find out for certain. Or if pressed for an answer, they respond with, "Well, that's the way we've always done it in the past."

These are the same bankers and brokers who don't return your calls in a timely fashion and close your loan in 3 months, when it should have taken one.

Finally, there are the UNETHICAL. People who are so greedy and larcenous that they will cut corners and make material misrepresentations to get a deal and turn a buck. They also tend to believe that they're entitled to 2 or 3 points on every loan, regardless of the lender's rebate. They're also willing to collude with borrowers to defraud lenders. You know what

they say: "If someone will lie for you, they'll lie to you". Lest you think I'm exaggerating, you should see the list of license revocations and suspensions the Department of Real Estate publishes monthly.

### **NO CAN DO, NO CAN ACCEPT**

I can't compete with LIARS and INCOMPETENTS because what they're offering are LOANS THAT DON'T EXIST.



What I don't want to do is work with clients who don't commit to me. The reason is that in order to work up a loan proposal, it's absolutely necessary to run the borrower's credit and each time I do, it cost me \$15, whether they do the loan or not. This, I accept as a normal cost of doing business. WHAT I CAN'T ACCEPT is that after doing everything necessary to close a loan, such as obtaining all the necessary documents, locking the rate, opening escrow and title, ordering an appraisal, submitting the file to the lender, getting the lenders loan approval and then have a borrower back out because someone proffered a rate an eighth of a point cheaper. This is a case of being penny-wise and pound foolish, because even if the deal is real and it takes another 30 to 60 days to close the loan, the borrower will probably pay more in interest on the old loan than what they will save on the payment.

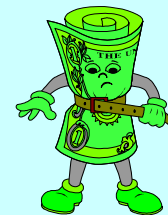
### **THERE'S NO SUCH THING AS A FREE LUNCH OR A "NO COST" LOAN**

When people talk about "No Cost" loans, they're not really no cost. You still have to pay the prepaids, those items that you'd have to pay whether you refinanced or not such as the interest, taxes, and insurance which typically are two-thirds of the cost of refinancing a mortgage. Also, no one is likely to pay for the appraisal, the reason being is

that if the borrower cancels the loan, the lender or broker owes the appraiser \$350 or more. So the actual cost NOT paid on a "no cost" loan is about \$2500-3000. The borrower bears the cost of everything above that. They can be a good deal. However, if you plan to sell your home within 5 years, you'll pay more in the form of a higher interest rate.

### **CAN I SAVE YOU \$?**

ALMOST CERTAINLY! I make this statement for a number of reasons. First, not only are there different financial products available, there are more than ever before. Secondly, despite the rise in mortgage rates, they're still about where they were 10 years ago.



Third, my background and experience are different from that of most loan officers: My MBA is from UCLA and my experience as a former Financial Planner has schooled me in ways to improve borrowers' cash flow through tax deductions, debt consolidation and the restructuring of their loans that the average loan officer might overlook. I can show you how to trim years off your mortgage at no additional cost to you.

I said ALMOST CERTAINLY. As a licensed professional, I have a fiduciary responsibility to my clients. IF I CAN'T SAVE YOU MONEY I'LL LET YOU KNOW.

### **WHY YOU?**

Because I want you as a client and I can help you!



## WHAT IF YOUR CREDIT IS JUST SO-SO; CAN I HELP YOU?

The answer is: IN ALL LIKELIHOOD, YES. There are programs available for almost anyone. In many cases, one needs little more than a valid social security number and a pulse.

## WHY WORK WITH ME?

Two reasons: I know what's important to borrowers; TIME, MONEY, PRIVACY, SECURITY, COMFORT, CONTROL and the ABILITY TO QUALIFY.

I'll give you a straight answer. If I don't know the answer, I'll find out and get back to you with it. One study of the banking industry reported that 8 out of 10 people who left messages never received a call back. I'LL CALL YOU BACK, JUST LET ME KNOW WHERE AND WHEN.

## WHAT I CAN DO?

More important, I KNOW WHAT TO DO and I'll DO WHAT I SAY. After all, there is only one Fannie Mae and one Freddie Mac, I have them and I've got all the major lenders. If anyone can do it, I can. If I can't do it, probably no one else can, either.

## WHAT I WON'T DO

I WON'T WASTE YOUR TIME! And I won't allow mine to be wasted. Why? BECAUSE NOT ONLY IS TIME, MONEY, IT CAN'T BE REPLACED AND NO ONE KNOWS HOW MUCH ONE HAS BEEN ALLOTTED.

## I SELL MONEY AND SERVICE

So you'll remember who I am and what it is I do, I put a \$100 bill on the back of my business card as a reminder because ..... well, everybody can use a little money now and again.

## MORTY'S MAILBAG

Once again, I'm feeling like the Maytag repairman—there are no letters in Morty's Mailbag, this month.



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](mailto:Morty@MortgageStraightTalk.com).

**NEXT ISSUE'S  
TOPIC:  
NEW LOAN  
PRODUCTS**

