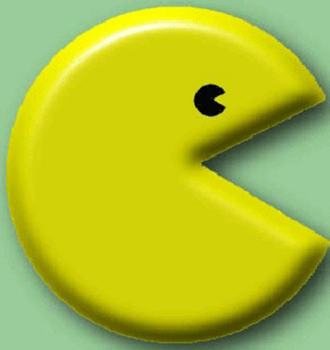

Newsletter - Vol. 3 Issue 7

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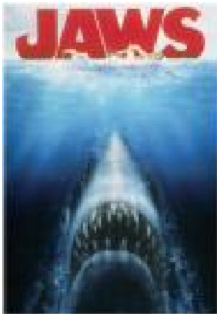
30 Yr. Fixed Conform. & Jumbo	**6.625%**
5/1 ARM Conform. & Jumbo	**6.25 & 6.5%**
Prime Rate	**8.25%**
MTA Index	**4.282%**
COFI Index	**3.759%**
Home Ownership Accelerator Index	**5.345%**

Morty's Bench Marks - 7/01/06

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

CURRENT EVENTS

Remember the movie "Jaws" that had the famous tag line, "just when you thought it was safe to go back in the water"…followed by the ominous bass--dun,

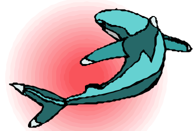


dun…..dun, dun, dun, dun---dun, dun, dun, dun…then the shark would strike, followed by the plaintive screams of the surprised swimmer? The current situation with borrowers and the Fed could be likened to the movie, in that what many in the financial community feared, the Fed struck again. The hit came in the form of another ¼ point hike; the resounding screams are from anguished borrowers throughout the land as they experience another bite out of their paycheck because the Fed Funds Rate impacts many things, such as credit card rates and auto loan rates. Also, it directly affects the Prime Rate (now 8.25%) which most Home Equity Lines of Credit are based on and it is closely tied to the index of many Adjustable Rate home loans.

Rising deficits fueled by the war in Iraq and injudicious tax cuts have hampered the Fed's efforts to control inflation and the justification for this latest bite was the 2.4% increase in the Consumer Price Index between this year's and last's, with the bulk of the increase attributed to rising energy prices.

Some think that it may have already gone too far, as this past month was the first time that durable goods orders have registered back-to-back monthly declines in two years and appears to provide further evidence that the U.S. economy is slowing under the impact of rising interest rates, soaring gasoline prices, and a cooling housing market.

Despite this, the odds of a rate hike at the Fed Open Market Committee (FOMC) meeting on August 8th, have risen significantly, with interest rate futures pricing in a 65% chance of another quarter point hike then. The shark is still circling, and whether it nips again at the pocketbooks of debtors and consumers, as the Fed put it, will be "data dependent".



THIS MONTH'S TOPIC:
NEW LOAN PRODUCTS

The purpose of a newsletter or for that matter a newspaper is to tell you what's newsworthy or new. In accordance with that, this month's topic is to acquaint you with a few of our industry's new products.

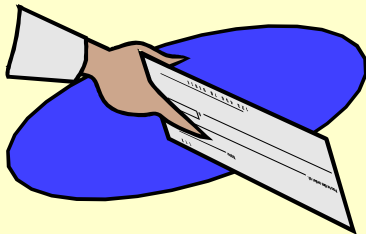
new

Not Really New, But Maybe It Is to You

Under the heading of Not Really New Loan Products (But Ones That May Be New to Some of You or Only Slightly Understood by Others) are the **Option Adjustable Rate Mortgages (Option ARMs)**. These loans have been very popular in recent years; they're the ones you've heard advertised on the radio with minimum payments amortized at 1%. They're known by a variety of names: MTAs (for Monthly Treasury Average), Pick-A-Pays, deferred interest loans, and Neg-Ams although there is no deferred interest or negative amortization, if one makes anything other than the minimum payment. The major attraction for borrowers is that the minimum payments are only 55% of what a fully-amortized payment would be.

Aside from the low minimums, the major benefit is their flexibility. These loans allow one to choose 1 of 3 or 4 payment options every month:

1) minimum-payment
2) interest-only payment
3) payment amortized over 30 years
4) payment amortized over 15 years



The minimum payments remain fixed for a year then they can increase or decrease by 7.5%. Note: the payment may go up or down by up 7.5%, not the rate. After 5 years the note recasts itself so that the loan will be retired within the balance of the remaining 25 years of a 30 year term. If the unpaid principal balance exceeds 110% (or depending on the lender 115% or 125%) of the original loan amount. the note will also recast. The lifetime interest rate caps are typically run about 9.95%.

These loans are ideal for the self-employed or borrowers with uneven cash flows because you can make lesser payments when money is tight and make larger ones when one is flush. Because of their flexible nature they can be used to maximize one's cash flow, minimize one's payments and maximize one's home interest deductions.

Just Out

Under the heading of New Loan Products is the **FlexPay Option ARM or (a.k.a. the Fixed-Pay Hybrid Option ARM)**. As the names suggest this is a variant of the Option ARM. The major difference between this and the basic Option ARM is that you can lock in an interest rate for 3, 5 or 7 year terms. Similarly, with the FlexPay Option ARM you have the monthly choice of making 1 of the 3 of the most common payments: minimum, interest only, or amortized over 30 years. The FlexPay Option ARM minimum payment is anywhere between 50 to 70% of a fully amortized payment depending on the length of the fixed term and the property's LTV. It starts slightly higher than a conventional Option ARM because there is no annual 7.5% minimum payment adjustment since the interest rate is fixed for 36, 60 or 84 months and ends up being less than a comparable Option ARM minimum payment after the third or fourth annual adjustment. In a nutshell, what the FlexPay does basically is to take the worry out of having an adjustable rate mortgage for the more conservative borrower.

It is important to note that the minimum payments are available only until such time that the loan balance reaches 110% of the original loan amount. After the loan balance reaches 110% of the original loan amount, interest only payments will be the lowest available for the remainder of the first 10 years of the loan.

IS 40 THE NEW 30?

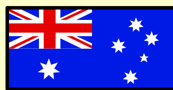
According to the California Association of Realtors (CAR) only about 14 percent of Californians can afford the median home price of $568,890 in California. As home prices have risen, the mortgage industry has seen the necessity of keeping payments affordable for homebuyers. Whereas the 30 year mortgage has traditionally been the note term for most borrowers, the mortgage community has seen fit to offer mortgages now with **40 year terms**. The benefit to borrowers is a lower payment. The downside, of course, is that even more money is going to service the debt and less toward principal reduction. In certain instances there is no increase in the price of the loan, in others the additional cost is only an 1/8 to a 1/4 of 1 percent. Many lenders offer Option ARMs with 40 year terms, as well.

With the advent of the 40 year note, it was just a matter of time before it happened and now it has. There are a couple of lenders that now **offer 50 year terms**.

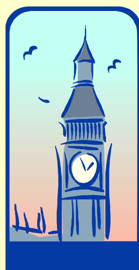
Kind of New--the 30 year-fixed hybrid with a 10 yr I/O option

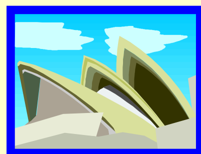
Again, this is a variant of that old stand-by, the 30 year fixed rate mortgage. The wrinkle with this product is that you can make interest only payments for the first 10 years and then fully amortized payments for the last 20 years, if it's a 30 year term, or 30, if it's a 40 year term.

New Here, Not Over There



Last, but by no means least, is an import from England and Australia, but new to the States**—the Home Ownership Accelerator**. One out of every 3 homes purchased in England utilizes this type of program and $100 billion worth of Australian real estate is financed this way annually. (Since a lengthy discussion of it was featured it in Volume 2 Issue 8 and a recap of sorts in Issue 9 of my newsletter, I'll just touch upon its





salient features, here). For those of you for whom "a picture is worth a thousand words", I'd like to direct you to a 4-minute movie at... http://www.cmgfs.com/partner/#.

Its strengths are such that it allows you to pay off your 30 year mortgage in 15 years or less. The impact is so great--that it would offset the effect of compound interest, were current interest rates to double--and all with **NO CHANGE IN YOUR SPENDING HABITS.**

In brief, it functions much like an interest bearing "sweeps" checking account. You direct deposit your paycheck or make your bank deposits to this "checking account" greatly reducing your principal balance. Your money stays in your checking account (mortgage), keeping your loan balance lower, saving you 5-7% in interest costs instead of earning 1-2% in the bank.

Even if you spend most of your paycheck each month, your average daily balance is much less. The interest is calculated on your average daily balance, which is lower, so you save interest, leaving more money for principal reduction. The residual balances in your checking account serve to significantly lower the interest that would accrue on the outstanding loan balance.

It's such a simple idea that it may not seem like it could have much impact. But, bear in mind, it was Einstein that observed that "compound interest is the most powerful thing in the universe." For it is this compounding of interest, that requires a loan repayment of $1,200,000 when one borrows $500,000 at 7% for 30 years.

There are, however, a few qualifications: one must have a minimum FICO score of 680; it only applies to primary residences and second homes; it is a first lien position instrument with the maximum loan amount being $1,000,000 and the maximum loan to value being 80%; and it is only available as a full-doc loan programs, no stated incomes.

It is ideal for people who have substantial cash flow like doctors, dentists, business owners or people who work on commission or receive business bonuses. The other major benefit is that while you're lowering your loan balance you still have access to the original amount of your credit line.

NEXT ISSUE'S TOPIC:

THE NEW FICO SCORING MODEL

MORTY'S MAILBAG

Q. Can you tell me what constitutes a cash-out transaction?

A. No problem, there are several instances. One would be where the borrower receives more than $2,000 cash in hand. Another instance would be a refinance involving debt consolidation that is not secured by property, e.g., credit cards, car payments, student loans, etc. (Note: some lenders would not consider this a cash-out transaction, but most would). A third example would have to do with what are known as "seasoning requirements". This has to do with a refinance combining a 1st mortgage with a fully amortized 2nd mortgage (or equity line) where the 2nd (or equity line) is less than 12 months old or in the case of an equity line that has had a cash withdrawal in excess of $2,000 within the last 12 months.

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