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mortgagestraightTalk.com

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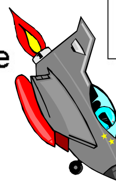
30 Yr. Fixed Conform. & Jumbo	6.25 & 6.5%
5/1 ARM Conform. & Jumbo	6 & 6.5%
Prime Rate	8.25%
MTA Index	4.432%
COFI Index	3.884%
Home Ownership Accelerator Index	5.345%



Morty's Bench Marks - 7/28/06

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

CURRENT EVENTS

A few people thought that my likening the Fed to the shark from "Jaws", last month, as indulging in a bit of literary hyperbole. While no doubt true--there are a substantial number of realtors who wouldn't find the comparison wholly inapt. Because, while the mercury has been soaring this summer, the housing markets have been cooling and the Fed's continuing rate hikes have caused a number of potential homebuyers "to stay out of the water". Despite realtors' encouragements "to jump in--the water's fine", buyers have remained "high and dry", thinking that home prices will continue to ebb. And it appears that they may be on to something as there have been 10% price reductions by major new home builders to reduce their inventories. Meanwhile, in the resale market, price-reductions and seller concessions have become the norm. But like so many things in this life—It's cyclical--and once interest rates have stabilized or begun to ebb, the tide of rising prices will inevitably begin to surge, again.

On the international front, it is more and more evident that we are part of a global village. Three weeks ago, the European Central Bank (ECB), the equivalent of our Federal Reserve for the European Common Union (ECU), opted to leave its rates unchanged though the head of the ECB thought that interest rates are "still low". Like the Fed, the ECB has made it clear that they too, remain "data dependent" and are monitoring the threat of upward pricing pressures very carefully. The Bank of Japan is still on the fence as to their decision to raise rates. These central banks' decisions are also critical to the monetary policy decisions being factored into the Fed's decision-making on domestic rates and whether the Fed will finally halt its continuing .25% bumps to the Fed Funds Rate and ultimately the Prime Rate.

The recent outbreak of hostilities in the Middle East has caused oil prices to spike as high as $78 a barrel, producing added inflationary pressure. The challenge facing the Fed is not to be overly restrictive as growth slows, yet still attentive to the inflation risk. This past week the Commerce Department reported that the Gross National Product grew 2.5% in the 2nd quarter, less than half the 5.6 percent expansion in the first three months of the year. During the same period, the growth in consumer spending halved, while residential investment suffered its steepest decline in almost six years.

Prior to Fed Chairman Ben Bernanke's comments at the Senate Banking Committee ten days ago, the certainty of another rate hike as predicted by Fed Funds Futures dropped from the 90% certainty of three weeks ago to only 25% by the end of July. Like Coca-Cola's old ad slogan, I'm betting the Fed will take a break from its 17 consecutive rate hikes at its next Fed Open Market Committee (FOMC) meeting on August 8th and provide the mortgage markets some welcome relief with "the pause that refreshes".

WHICH WOULD YOU RATHER HAVE AN "A" OR A 750?

So…you thought the days of getting a grade was over after graduation--not so--at least not if the three major credit bureaus, Experian, TransUnion and Equifax, have their way. In March 2005, they buried their rivalries and banded together long enough to devise a new credit scoring model they dubbed the VantageScore. It's more consumer friendly because borrowers are well acquainted with the concept of a letter grade from their school days. It assigns a letter grade of A through F to groups of three digit scores. The range of scores is from 501-990.

They knew it would be confusing but they said they had to use three digits because if lenders are going to adopt their system, the lenders would want to keep the same software that has three spaces for a credit score. With the introduction of the new scoring model it is vitally important to know which credit scoring model a lender is using. If you have a credit score of 750 it would merit "A" paper pricing under the FICO model but if this referenced the VantageScore model it would be considered strictly average. (See below for a side-by-side comparison).

	VantageScore	*FICO Score*
Cost	$5.95	$14.95

Score Range	*Grade*	*%*	*Score Range*	*%*
901 - 990	A	11	800 - 850	13
801 - 900	B	29	750 - 799	27
701 -800	C	21	650 - 699	15
601 - 700	D	20	600 - 649	12
501 - 600	F	19	550 -549	8
			500 - 549	5
			300 - 499	2

The purported purpose of the VantageScore was to foster a more consistent credit score among the three bureaus because under the present system scores can vary widely among the three. But, it is not purely altruism on the bureaus' behalves that is prompting the adoption of a second credit scoring model to challenge the predominant FICO model devised by the Fair Isaac Corporation. The bureaus are doing it because they want lenders to start using their scoring system because it's where the real money is, not in selling $6 credit reports. And they want a piece of the $798.7 million of reported revenue that Fair Isaac Corporation earned from its FICO model, last year.

The CLASSIC FICO SCORE MODEL

At present, a consumer's FICO score is a three digit number that lenders use to evaluate the likelihood that a borrower will have a 90-day late payment within the next 24 months. One's FICO score comprises many factors, including how much debt is being carried, how timely the debts are being paid, and overall length of credit history. It ranges from 300, for deadbeats, to 850, for sterling borrowers. Half of America's consumers are above 720 and half below it. Thus a score above 700 is considered excellent, between 660 and 700 is considered average and below 660 usually means some work needs to be done. In general, the higher the score, the better the credit terms that will be offered to the borrower.

For a more in-depth discussion of FICO scores, go to: www.mortgagestraighttalk.com , click on the menu bar labeled "Talking Points" and click on Credit.

NEW! IMPROVED! 30% LESS!

In the past, each credit bureau had a slightly different formula and information gathering system, so the scores were often not consistent among the three bureaus. And this sometimes caused problems for lenders when working with consumers that have a large variance in scores….and therefore caused problems for the consumer when seeking credit. The credit bureaus researched 15 million anonymous consumer credit profiles and claim that the new scoring model is likely to reduce the variance between credit scores by as much as 30%. With the new model, the factors used to create a credit score will remain the same, but the overall model will look a bit different from what has been seen in the past. They say the new system improves risk prediction by weighing more factors. Also, they claim it more accurately measures consumers with "thin files", their terms for someone with a short credit history.

A COMPARISON OF FACTORS INFLUENCING SCORE

	VantageScore		*FICO Score*
Payment History	**32%**	**Payment History**	**35%**
Utilization	**23%**	**Balances**	**30%**
Balances	**15%**	**Length of Credit History**	**15%**
Length of Credit History	**13%**	**New Credit**	**10%**
Recent Credit	**10%**	**Types of Credit Used**	**10%**
Available Credit	**7%**		

While this is not the first time that the credit agencies have tried to grab Fair Isaac's business with their own proprietary credit scores. The products were not widely adopted by lenders because as mentioned earlier each agency used a different scoring system with different scoring ranges, which made it difficult for lenders to manage risk. It left consumers confused because each agency gave out a different number. Consequently, it was not unusual to see a variance of a hundred points or more, a daunting prospect because that great a variance could mean the difference between an 8.125% mortgage and one at 6.75%.

ADVANTAGE FICO

Although the new VantageScore is being introduced to banks, mortgage lenders, and credit card companies it is not yet replacing the current model being used. Most lenders will not be using VanatageScore for at least six months, probably as long as 18 months. Each lender needs to test the scoring system to see how effective it is at measuring credit risk and how it compares with a next-generation FICO score that Fair Isaac has developed to compete against it.

MONOPOLY vs. DUOPOLY

While VantageScore is being offered as an alternative method of determining creditworthiness, it is a bit premature to determine whether or not the lending institutions will actually adopt this new model as a standard. Why? As the saying goes, "If it ain't broke... don't fix it" and the current model has been working well, historically. Additionally, many lenders have created extensive lending guidelines around the present scoring system, so it may not be cost effective to change the scoring model any time in the near future. Until VantageScore catches on—and it may not—there is little need to buy a VantageScore report, other than to satisfy one's curiosity. Experian is the first to offer the reports at www.vantagescore.experian.com.

MORTY'S MAILBAG

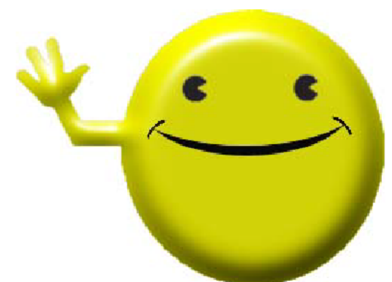
Q. Can you explain **supplemental taxes**--what they are and why I'm being charged for them since I thought we paid all the taxes back when we bought our home? Our realtor wasn't much help in explaining them.

A. The Supplemental Real Property Tax law was enacted in 1983 to aid California's schools. It comes into play when buying property or undertaking new construction. If you do either, you will be required to pay a supplemental property tax which will become a lien against your property as of the date of ownership change or the date of completion of new construction.

It's perhaps more easily understood using a real world example. Let's say you purchase a property for $500,000, that prior to your purchase had a $400,000 assessed value. At the close of sale, Title and Escrow will pro rate the property taxes between the seller and the buyer on the $400,000 assessed value. The tax accounts between seller and buyer are effectively balanced at this point.

But remember, you now own a $500,000 property and the tax assessor hasn't entered your property on the tax rolls, as such, because the legislature has decreed that property taxes can only be reassessed every January 1st. But property taxes are on a fiscal year running from July 1-June 30, not a calendar year. Consequently, there will be a discrepancy between the period of time (month) that title changes hands at the old valuation and the time of the newly assessed valuation for the fiscal year. In short, the supplemental assessment will be pro-rated, based on the number of months remaining until the end of the tax year, June 30. For example, if the change of ownership or completion of new construction occurred on October 1, you would be responsible for 9 months of the year at the new $500,000 valuation since the taxes can't be reassessed until Jan 1 and the fiscal tax year doesn't end until June 30th of the following year. So, if the change between the old and new tax bills were $1000 per year, your pro-ration factor would be .75, or in this case $750. The pro-ration factor is simply 1/12 or .0833 per month. When the new fiscal year begins on July 1 your tax bill would naturally reflect the $500,000 sales price. I hope this clarifies it for you.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. Questions may be forwarded via mail phone or fax. Morty's email address is.... Morty@MortgageStraightTalk.com.



NEXT ISSUE'S TOPIC:

2nd Mortgages