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mortgagestraightTalk.com

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30 Yr. Fixed Conform. & Jumbo	6.125 & 7.375%
5/1 ARM Conform. & Jumbo	5.75 & 6.625%
Prime Rate	7.75%
MTA Index	4.933%
COFI Index	4.277%
Home Ownership Accelerator Index	5.665%

Morty's Bench Marks - 9/28/07

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

CURRENT EVENTS

Ordinarily here, I try to make some sense of what I see taking place in the domestic and global economies and their impact on the mortgage markets. This month, I thought I'd reverse the process and simply report condensed versions of some of the disparate stories that I routinely come across and give the reader an opportunity to objectively arrive at one's own opinion.

8/30/07 Credit Suisse, a major lender, said that with so many lenders unable to sell their loans to investors, it does not expect a recovery until the housing market rebounds in 2009.

9/7/07 The Mortgage Bankers Association (MBA) released its 2nd Quarter National Delinquency Survey which showed that California mortgage loans entering foreclosure have reached 25-year highs, with sub-prime borrowers bearing the brunt of the storm. The MBA's data also show that foreclosures both—for all loans and sub-prime loans—increased about 200% over last year.

9/7/07 With credit constricting throughout the banking system, the European Central Bank stated that it no longer needed to tighten its monetary policy and left its benchmark interest rate unchanged at 4 percent. Separately, the Bank of England kept its benchmark rate at 5.75 percent.

9/7/07 The Dow Jones Industrial Average dropped 249 points after hearing the U.S. jobs report. U.S. job growth in August was actually negative for the first time in four years, with a loss of 4,000 jobs. In a classic move away from risk, investors rushed into Treasuries, yesterday. The yield on the 10-year Treasury note, which moves in the opposite direction from the note's price, fell to its lowest level, at 4.37 percent, in more than a year and a half. The dismal Report also means the Fed is almost guaranteed to make a cut to the Fed Funds Rate at their upcoming meeting on September 18th, to help stimulate a sagging economy. A cut in the Fed Funds Rate impacts the Prime Rate, which affects Home Equity Lines of Credit, credit cards, business loans, car loans and the like - but does NOT have a direct correlation to home loan rates. Many adjustable-rate mortgages are tied to benchmarks other than the federal funds rate, like the London Inter-bank Offered Rate (LIBOR), which last week hit multi-year highs.

9/16 Employment statistics and the bond market are combining to send out a warning that has been heard only rarely in the past two decades: a recession is coming in the United States. Both show the double warning. Both have warned of an economic downturn and they are doing so again. While each has arguably registered false warnings, they have never done so together.

In normal times, the yield on two-year Treasuries is usually higher. In bond market jargon, the opposite condition is an inverted yield curve. And when it is very inverted, as it is now, a recession is imminent.

In a growing economy, with the labor age population rising, the number of jobs almost always increases. But not now. The August employment figures, reported last week, showed 145,794,000 people with jobs, or 125,000 fewer than in February. When that number goes into negative territory, it is a warning of a slowdown.

9/18 The Fed cut the Fed Funds rate by an unusually large one-half percentage point, to 4.75 percent from 5.25 percent, twice as large as most investors had expected, and it showed in the market's reaction. The Dow Jones industrial average rose 335.97 points. It was the biggest single-day gain for both indexes since early 2003. In an accompanying statement, the central bank acknowledged that the risks of a recession were too big to ignore.

9/18 RealtyTrac of Irvine, Calif., reported that the number of foreclosure filings—from default notices and auction sale notices to bank repossessions—was 36 percent higher in August than in July and 115 percent higher than one year ago.

9/19 Today, the Dollar fell to a new low against the Euro. The Federal Reserve's decision this week to cut interest rates put further pressure on the dollar by making investment returns in other countries comparatively more lucrative.

This sparked a sell-off in Treasuries yesterday which lowered the price of the bonds, causing the yields to rise which in turn was reflected in higher interest rates for mortgage-backed securities.

9/24 The euro rose to another new record against the dollar Monday, hitting $1.4130 as last week's Federal Reserve interest rate cut continued to weigh on the U.S. currency.

9/28 The Commerce Department reported that both the median price and sales of new homes fell by 8.3 percent in August and sales of existing homes fell by 4.3 percent in August, a 21% decline over last year.

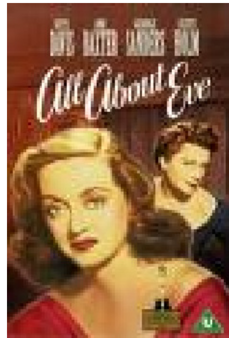
9/28 As of this date, 161 major U.S. lenders have imploded.

LIKE A BROKEN CLOCK—IT'S RIGHT TWICE A DAY

One might legitimately argue that "the deck was stacked" against an objective conclusion being reached by the reader given the news reports that I chose to include. Nevertheless, it does give one a daunting feeling of how difficult it can be to forecast what lies ahead given the number of variables, their interaction and possible outcomes.

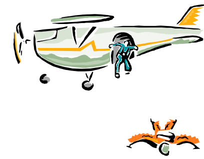
On January 1 of this year I wrote: **"Extremists see the Fed in a no-win situation. One side claims that if the Fed were to raise rates, the real estate market would collapse, the other side says that if it were to lower rates, the dollar would collapse…this kind of confusion about what's going on is what typically happens when the economy is at a turning point, when an economic expansion is about to turn into a recession (or vice versa). At such times, the various indicators that usually tell us which way the economic wind is blowing often point in different directions, so that both optimists and pessimists**

can find data to support their position. The last time things were this confused was early in 2001, when most economists failed to realize the United States was sliding into a recession. If that sounds ominous, it should: the bond market, which has a pretty good record of forecasting recessions, is pointing toward a serious economic slowdown this year. I would venture to say that a rate cut is inevitable, it just may not arrive until the end of the 2nd or 3rd quarter. With all these different market forces at work it looks to be an interesting year ahead. To quote Betty Davis in "All about Eve:" "Hang on, it's going to be a bumpy ride!"



In past newsletters, though I've repeatedly made reference to the previous sentence (almost to the point of ad nauseam) it has certainly been borne out by the volatile swings we've seen thus far in the stock market. Back in February, a 417 point drop in the Dow Industrial Average (called the Shanghai Surprise because it originated in China) was followed in March and April by troubling news about a meltdown in the domestic sub-prime mortgage markets only to be followed by the Dow topping out above 14,000 on July 20th and a subsequent 434 point drop less than a week later which was followed by the unfolding liquidity crisis. Despite the media's attribution, sub-prime mortgages did not contaminate other debt markets so much as they caused a reassessment of risk. After the first Fed Funds rate cut in 4 years, we subsequently saw a 335-point up-tick in the stock market. But, Bond Traders analyzed this as potentially inflationary and the value of the Dollar vis-a-vis the Euro hit an all-time low. A 3-day sell-off in Treasuries ensued as Bond Traders dumped their fixed rate securities. As the price of bonds dropped, the rate of return (yield) increased which caused fixed home loan rates to rise by .125 to .25%, actually higher than where they stood before the Fed Funds Rate cut. In case you were wondering, the point I endeavored to make at the outset of this piece with reference to a broken clock was that I was right about the timing of the rate cut, but for the wrong reasons.

The purpose of the Fed cutting the Fed Funds Rate was to get things moving again. It needed to do something to stimulate lending. The Fed Funds Rate is the rate the banks pay to lend money to each other—it has no direct affect on the rate to consumers.The idea was to create movement in the economy, not for John Q. Public to get a lower rate on his mortgage. The Fed can sometimes dampen volatility, but the Government can't legislate nor can it create prosperity by pumping money into the system. The Fed is boxed in—it must weigh concerns about cutting rates to ease the credit contraction against keeping inflation in check to maintain the strength of the dollar. With nearly a trillion dollars worth of interest rate resets before the year's end, the current credit crisis is far from over. As we saw on September 19th, if the Fed cuts the Fed Funds rate, the Dollar erodes further: investors will sell Treasuries and seek higher-yielding returns abroad or elsewhere. If it doesn't cut enough, a recession is imminent. More rate cuts are forecast before year's end—just how much is anybody's guess. And, if they're severe—the Dollar will fall further and mortgage rates will consequently be ratcheted upward.



THIS ISSUE'S TOPIC: THE SHORT SALE

The media has been awash with stories in recent months about the foreclosures in the sub-prime mortgage market, yet these defaulting loans constitute only about 2% of the overall mortgage market. In spite of this, or perhaps because of it, a great deal of talk has been generated about "short sales". Because of their recently being both a frequent and misunderstood topic of discussion I've chosen it as the focus of this month's issue. Hopefully, none of you are facing one, but you may be considering purchasing one. There are a number of pitfalls of which to be mindful. I'll discuss short sales from the perspective of the four principal parties in such a transaction: the lender, the seller, the buyer and the realtor.

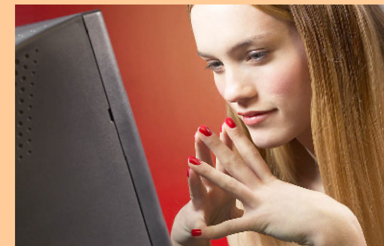
WHAT IS A SHORT SALE?

A short sale is one wherein the lender agrees to the sale of a property for a discounted payoff that is "short" or less than that which is owed on it. The usual reasons that a lender agrees to take a loss on a property are because the mortgage is in arrears and if the property were to be foreclosed upon the lender would sustain an even greater loss. There are other reasons that a lender will agree to a short sale, though they are somewhat rarer, like the homeowner has hardships (e.g., death, disease, disability, loss of job, etc.) and cannot afford the mortgage payments, the area or neighborhood has depreciated in value, the lender is required to keep its REO (real estate owned) inventory below a certain percentage of their assets, or the lender's shareholders are concerned that there are too many defaulting loans on the books. A lender will not consider a short sale if the loan balance is low enough that the homeowner can sell the property and pay off the loan, fees, taxes, etc..

TIME IS MONEY

Not only is the foreclosure process costly, it is very time consuming. It is only after a borrower is 90 days in arrears that the actual foreclosure process begins. At the very least, 8 months or more may have elapsed by the time that a property is foreclosed upon. During this time the lender will not have received any money on his non-performing asset. Consequently, it is in the lenders best interest to work as quickly as possible to sell the newly foreclosed property. Lenders are in the business of lending out money, not acquiring real property. Also, the now vacant property may have fallen into a state of disrepair. An REO is a liability, not an asset. Too many liabilities will cause any business to go under if not dealt with quickly. So, anything that could lessen the cost and shorten the foreclosure process should be welcome in the eyes of the lender.

MOTIVATIONS



Now, let's take a look at the motivation of the seller/owner. short sale benefits owner that is in that it mitigates the negative impact on his or her credit. When a borrower fails to pay his loan as agreed and falls 30-60-90 days behind he is considered in default. When the lender files a "Notice of Default", which is recorded with the county recorder, this begins the foreclosure process. By this point, much of the damage to one's credit has been done. A foreclosure, like a bankruptcy, will show up on one's credit report for the next 10 years. (Obviously if one is able to effect a short sale in lieu of foreclosure, the borrower is much better off because the adverse impact of 30, 60 or even 90 day "lates" will diminish after 2 years).

As for the buyer, he or she would seem to be in an enviable position from the standpoint of having a grateful seller and a lender who is willing to take less than is owed on the property, and one who in all likelihood is willing to entertain offers that are 10-20% below market price to get this non-performing asset off its books, not to mention avoiding the expense of foreclosure and repairs that may be required to be made before it's saleable.

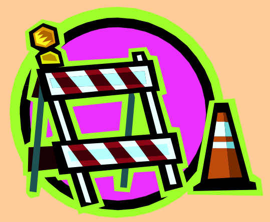
SHORT SALES: A WIN-WIN-WIN SITUATION?

It should seem to be a win-win-win situation all the way around and yet…it rarely is. This is one of those classic cases of "it's fine in theory, but a different matter in practice." One would think that the party that had the most to lose and the most experience in these matters, namely, the lender, would be the savviest and ready to make a deal, but ironically, it's rarely the case.

EIU, ALM, & PFC = MISSING IN ACTION

Lenders' Loss Mitigation Departments go by a variety of names: Early Intervention Unit (EIU), Accelerated Loss Mitigation (ALM) department or Pre-ForeClosure (PFC) group, etc. and they rarely live up to their appellations. The personnel are usually too overburdened and/or under-trained to be effective. The "specialists" in these departments are responsible for between 125-175 accounts per month which perhaps serves to explain why so often "the buck gets passed on" from one person to another with seemingly little or no understanding of the process or what is in the company's best interests—they just want to get the phone call or file off of their desk and on to someone else's.

Since loss mitigation departments will never be profit centers for a lender, one would think they would be more predisposed to arrive at a solution space that benefited the bottom line rather than pushing things through the system and tallying up another foreclosure. Yet, it's been my experience and that of many others, that this is the norm.



LIEN HOLDER APPROVALS = REALTOR ROADBLOCKS

With a normal real estate transaction it can close at will once the contract is "four cornered" or that all signatures are affixed and there has been a meeting of the minds. In the short sale, all agreements are subject to lien holder approval. Since the seller is requesting a discounted payoff from the lender all parties must allow the lien holder to complete an evaluation to determine the value of the home and determine if the loss is justifiable. The lender wants to mitigate his losses so the process of evaluation must be completed before the approval is granted. This process can delay closing for several months.

HOWEVER….

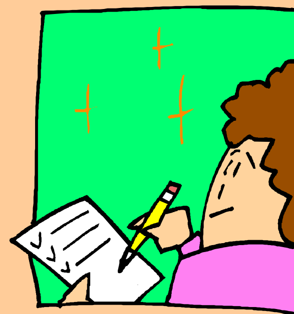
The lender won't work directly with the homeowner because when a borrower signed the original Note, he agreed to pay the money back as outlined in the agreement. Regardless of the circumstances, he is still obligated to pay the full amount. The lender cannot negotiate with the homeowner; hence, the need for a realtor's services. When faced with the decision to liquidate the property, a lender must hire a professional to evaluate all of the marketing costs and value of the property. This is often called a BPO (for Broker's Professional Opinion) or CMA (Comparative Market Analysis). Both of these are little more than a cursory appraisal reflecting market conditions.

Sometimes, sellers ask if it's possible to sell a property that has multiple liens. The answer is an unequivocal yes. Liens against a property are prioritized according to date and time of recording. When a property is sold "short" the loan in first position is paid the majority of the proceeds. All others are pretty much happy to get what they can. All lien holders can be negotiated with. Here again, the requisite need for a realtor's service are vital.

SOME REALTORS "NOT READY FOR PRIME-TIME" WHEN IT COMES TO SHORT SALES

As frustrating as lender's Loss Mitigation Departments may be to deal with and at the risk of alienating many of my readers who are realtors, **THE #1 PROBLEM WHEN DOING SHORT SALES IS THAT MOST REALTORS DON'T KNOW HOW TO SUCCESSFULLY NEGOTIATE THE SALE WITH THE LENDER OR LIEN-HOLDER. Most realtors do not fully understand the process and what should be included in a short sale package. They leave out critical components (usually of a financial nature), which if they're not there, the lender's Loss Mitigation Departments isn't likely to aid them in their cause given that those personnel are, as previously mentioned, over-burdened and under-trained.** A realtor's package should include:

1) A Borrower's Statement of Authorization which allows them to talk to the lender
2) A Hardship Letter telling the real story of why the property needs to be sold
3) Supporting Documents: e.g., divorce papers, tax returns, etc.
4) Listing Agreement
5) A BPO with Market Trend Analysis, Time on Market, Months Inventory & Rising/Falling Trend
6) Copy of Purchase Agreement and Addendums
7) Repair Estimates, if any
8) Copy of Estimate of Seller's Charges (a.k.a. Net Sheet or HUD-1) with Lender, Escrow, Broker Commission/Fees, etc.
9) Seller's current financial profile e.g., pay stubs, recent bank statements, disability benefits, unemployment benefits (Freddie Mac form #1126 'Borrower's Financial Information is useful)
10) Explanation of your Request for a Short Sale.



If all these items are included, the lender should approve the short sale as opposed to waiting months for a response and having the buyer tire of waiting and look elsewhere "for a deal".

SELLER POINTS TO PONDER

Salvaging the seller's credit is important because it affects their ability to purchase a new home. Credit is only one of the factors, though. Where there has been minimal credit damage as a result of a short sale clients have been able to purchase a new home within six months with little down and with an excellent rate. A lender is most interested in the borrower's ability to repay the loan. If the problems that led to the Short Sale are behind and there are at least 12 months of good credit with three or more credit accounts one should be able to purchase with minimal down payment at a competitive interest rate.

There are some points that sellers should be aware of when considering a short sale: they usually can receive NO MONEY, the seller may still owe the difference between the mortgage balance and the amount of the short sale via a "deficiency judgment". If granted, this judgment will affect the seller's credit as any other judgment would. It is important to get the lender to accept the short sale amount as "payment in full without pursuit of any deficiency judgment" such that the seller's credit report shows "Paid as Agreed" or "Satisfied". Obviously, this agreement should be written on the contract. Also, the I.R.S. deems this Forgiveness of Indebtedness, as it's termed, miscellaneous taxable income (form 1099) i.e., the difference between the mortgage balance and the short sale is considered earned income. Very often a letter from one's CPA to the I.R.S. showing Proof of Insolvency will remove the seller's tax liability of miscellaneous income.

ADDITIONAL SELLER CONSIDERATIONS

If a seller files bankruptcy, it is still possible to have the home released from the assets included in the bankruptcy thereby allowing the agent to complete the sale. One of the main goals in the completion of the short sale is to minimize the damage to the credit of the individual. While a bankruptcy is disastrous to one's credit, adding a foreclosure is financial suicide. Such a seller should be spared the latter.

BUYER CONSIDERATIONS

Buyers sometimes think that short sales abound in every price range, but that's simply not true. Bad things happen to good people in all walks of life and price ranges and for a variety of reasons, however, the rich are obviously more insulated from the financial depredations that face lower income borrowers. Consequently, it's certainly possible to buy a very nice home as a short sale because of the many reasons already alluded to but there are far fewer in the million-dollar plus range.

REALTOR TIP

If a lender's Loss Mitigation department is unresponsive, I am not above Fed-Exing the realtor package to the CEO or President of the lender and have enjoyed considerable success with this approach. If one wishes to deal with the lender in a less dramatic fashion I would, at the very least contact, the V.P. of their Loss Mitigation Department.

From the above, one can see there are a variety of problem areas that need to be avoided and/or negotiated. My recommendation: only entertain short sales when dealing with experienced pros.

MORTY'S MAILBAG

Q. We just paid our property tax and we noticed that the property we bought a few years back has dropped about 12% in value but our property tax has not gone down accordingly. Is there anything we can do to get our tax bill lowered?

A. Yes. The National Taxpayers Union estimates that as many as 60% of homes are assessed for too high of a value, resulting in an inflated property tax bill. The chances are better than even money that you're in that group of people paying too much.

The good news is that it's easily corrected. First contact your local tax assessor's office and ask for someone in the reassessment area. Find out when appeals are heard, and how the process for submitting a property tax appeal works. Additionally, ask for a copy of your property card. Review the card and confirm that the basic information about your property is correct. For example, is the

square footage and number of rooms for your home accurate? If the number is incorrect, the county may change the assessment without a formal appeal. If everything on the property card is correct but the assessed value still seems too high, your next step is to gather the following documentation to support an appeal. And don't be surprised if the assessed value is lower than what you think the market value for your home is—many counties use a formula which uses a percentage of market value to determine assessed value. Ask what the formula is, because an assessment which is less than market value still might be too high.

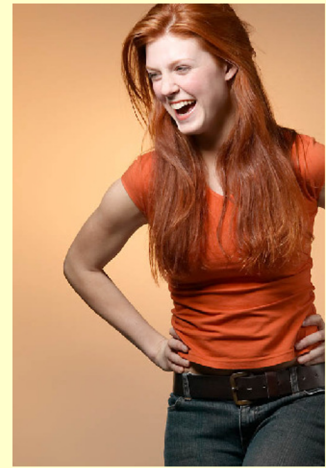
If you have a current appraisal that supports the value being lower using recent market-value information, many counties will accept a copy of the appraisal with the appeal. If the appraisal is outdated, you can order a new one—just call me for a referral to a great appraiser. You can also visit the local assessor's office or search online, and look through the public records for other homes that have similar features to yours, but have lower assessments. Additionally, contact me to get in touch with a great Realtor who knows your area. They will be able to give you current market information for your neighborhood, and help you see how your market value and assessed value stacks up against your neighbors.

Submitting an appeal is generally a fairly simple process, but make sure to take the time to fill out all forms in advance and be prepared with your documentation if there is an in-person hearing that needs to take place.

More good news—according to the National Taxpayers Union, about 33% of property tax appeals succeed! Taking the time to review the accuracy of a tax bill could easily save you hundreds of dollars per year, adding up to thousands of dollars during the time you own your home.

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**

MORTGAGE MIRTH



A software manager, a hardware manager, and a marketing manager are driving to a meeting when a tire blows. They get out of the car and look at the problem.

The software manager says, "I can't do anything about this - it's a hardware problem."

The hardware manager says, "Maybe if we turned the car off and on again, it would fix itself."

The marketing manager says, "Hey, 75% of it is working - let's ship it!"

If you'd care to share one that you've heard, please email it to me at.... **Rod@mortgagestraightTalk.com**

NEXT ISSUE'S TOPIC:
PRE-QUALS,
PRE-APPROVALS AND
APPROVALS REVISITED