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30 Yr. Fixed Conform. & Jumbo	6 & 6.875%
5/1 ARM Conform. & Jumbo	5.75 & 6.625%
Prime Rate	7.5%
MTA Index	4.788%
COFI Index	4.383%
Home Ownership Accelerator Index	4.716%

Morty's Bench Marks - 11/26/07

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

CURRENT EVENTS

This past month, certain sounds in the commodity, currency and stock markets typified their performance. "**KABOOM**" perhaps might have best characterized the explosive sound of the price of oil "going through the roof", up 97% from its $50.48 price in January of this year to hit an all-time high of $99.29 a barrel on November 21th. In the September '06 newsletter I wrote "that the instability in the Middle East serves to only hasten the likelihood of $80 oil and in turn, raise the price of oil-based items as diverse as airfares to plastics". When it dropped back the following month I observed:

Oil prices have momentarily receded to below $62 per barrel and across most of the nation gasoline prices have followed suit which has helped to moderate inflation. Nothing, however, lasts forever. As long as much of the rest of the world is paying $6-9 a gallon for gas, it's only a matter of time before they [prices] begin their inexorable creep back upward.

This year, pre-existing conditions, the increased demand for petroleum by China and India, and the administration's saber-rattling toward Iran amidst a weakening dollar all contributed to oil's meteoric rise.

And speaking of the dollar, the sound best denoting its monetary performance this past month was **"SSSSSSS"** as its value leaked to a new low of 1.49 dollars to the euro (or .67 of a euro to the dollar). One of the things that worries the Fed is that if it were to cut short term rates further, overseas investors—notably China, which holds about a trillion dollars of U.S. Treasury Bonds—might sell their U.S. holdings and then buy investments in other currencies, additionally weakening the dollar and forcing up interest rates here which would choke the U.S. economy further, prompting overseas investors to sell even more, repeating the cycle.

Finally, **"KA-BOING, KA-BOING"** were the jouncing sounds of the stock market averages mimicking a pogo stick going down a flight of stairs in early November with 100 point ups followed by 300 plus point downs. The first 357-point drop occurred on Nov. 1st when Citibank and Merrill Lynch acknowledged their need to write down their sub-prime losses by $30 billion and $10 billion, respectively. The Fed, sensing a potential danger, injected $41 billion into the banking system to stabilize it.

A week later, the Dow Jones index plunged 361 points on news that Washington Mutual was also reeling from bad loans and the target of a probe by N.Y. Attorney General Andrew Cuomo to investigate whether mortgages sold to Fannie Mae and Freddie Mac by Washington Mutual involved appraisal fraud. The stock market took another 223-point header on the 10th when Morgan Stanley said it would take a 6 billion dollar write down stemming from its mortgage business. JP Morgan acknowledged an unspecified amount of exposure in the same area, as well.

Amid news of write downs by the British Banking giant, HSBC, and the deteriorating value of E-Trade's mortgage-backed securities portfolio, the Dow suffered its 4th straight decline and dropped another 55 points. With the market appearing to be oversold, traders came back in and bid up stocks for a 319 point gain on the 14th, only to reverse direction the following day with another 120 point drop. The week of the 19th started off with the Dow recording another 218-point drop spurred on by forecasts of Citigroup's need to write down $15 billion over the next two quarters from mortgage loans gone bad. This was followed by a slight blip up only to experience another 211-point decline on the Wednesday before Thanksgiving. Though it finished out the week up 188 points, it was still over 1000 points below the record it had set only some 6 weeks earlier.

The volatility that we've seen in the stock market this year appears when the economy is at a turning point. The bond market has seen numerous instances of inverted yield curves in the past two years which are viewed as a precursor of real trouble, heralding slowdowns at best and recessions at worst. The significance is that investors do not feel sanguine about the long-term strength of the economy. The market remains wracked by uncertainty as traders fear that fallout from the summer's credit crunch will continue to batter banks and businesses in the coming months.

The recent, severe sell off in the stock market has benefited the bond market, prices have strengthened and the yield (interest rate) on the 10 year bond dropped from 4.82% six weeks ago to below 4%. But the decline in long-term mortgage rates has not been commensurate with the decline in yields on Treasury Bonds. Part of the reason for the disparity is due to the multi-billion dollar losses surrounding Fannie Mae, Freddie Mac and various prominent banking giants.

Since last month, 13 more mortgage lenders have closed down their wholesale operations, bringing the YTD total to 190. The most prominent names among the current wave of imploding lenders were Countrywide's Sub-Prime retail division, Countrywide's Specialty Lending Division (wholesale) and Washington Mutual's Commercial Correspondent (Wholesale) Lending Program.

11/14 According to the National Association of Realtors, existing home sales are expected to decline 12.7 percent this year. The sales numbers are worse than expected, hitting a 5-year low.

A week earlier, on Nov. 8, Ben Bernanke, chairman of the Federal Reserve, told Congress that the economy was going to get worse before it got better. He predicted that the housing market had yet to hit bottom, that delinquencies and foreclosures were likely to rise and

that the depression in home-building was "likely to intensify." He prophesied that personal spending would advance more slowly, because consumers were less confident and because of tighter credit conditions. He added, "further sharp increases in crude oil prices have put renewed upward pressure on inflation and may impose further restraint on economic activity." Given his remarks, one might logically deduce that this was a sign that the Fed might be more likely to cut short-term interest rates when it next meets on Dec. 11.

But, despite all these worrying signs, Mr. Bernanke noted that since the Fed reduced short-term interest rates the economic data "continued to suggest that the overall economy remained resilient." If he's right, it will be the first time ever that a housing slowdown of this magnitude has not triggered a recession.

Though it would seem that the admixture of a volatile stock market, a severe housing slump, constricting credit, rising oil, a falling dollar, and waning consumer confidence are among the requisite ingredients for a virtual "perfect storm" of a recession, the Federal Reserve Chief and others feel more optimistic about their "macro" view of the economy. In contrast, viewing things from such a vantage point can leave one perilously unaware of just how dire things are at the grass roots level.

HAVE YOUR CAKE AND EAT IT TOO—FOR SOME OF YOU

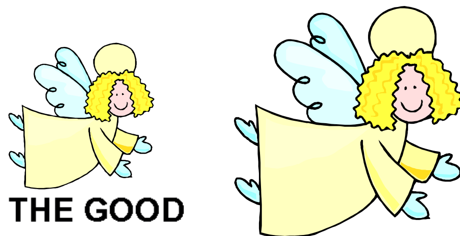
But, to pull this off this enviable feat you need to be age 62 or older. What I'm referring to here is a **reverse mortgage:** homeowners getting paid to live in their own homes. Basically, it allows the homeowner to tap the equity in their home—for whatever reason—without making mortgage payments so long as it remains their principal residence. The homeowner can elect to receive a Line of Credit, a lump sum payment monthly payments for a specified period of time, tenure payments (as long as the homeowner(s) occupy the property) or some combination thereof. There are NO income, asset, employment, or credit qualifications to speak of. The program even allows for homeowners to participate in the home's appreciating value. And, as you might have guessed—yes, we do them.

MORE LEGAL MUMBO JUMBO

A recent survey revealed that the majority of homeowners were unclear as to whether they had a fixed or an adjustable rate mortgage. Of those having an adjustable rate mortgage an even larger percentage had no idea of how much a payment increase they would be facing if the rate were to adjust. To remedy this, if a borrower desires anything other than a fixed rate product, the Department of Real Estate (DRE) now requires mortgage brokers as part of the Good Faith Estimate (GFE) to complete Form 885. It is a grid of 66 blanks that shows minimum and maximum payments and balance comparisons of 5 different kinds of loans. Even though the borrower may have no interest in any of the other 5 loan types they are still required to sign and affirm they understand the various products. The form is confusing to say the least. I find their designation of a fully amortizing Interest Only loan to be an oxymoron. It took 2 seasoned brokers I know half a day to do the calculations. Imagine trying to explain these calculations to the lay borrower. Although it was well-intentioned, this additional disclosure will in all likelihood only serve to further aggravate brokers and confuse borrowers.

NEW PROPOSED LEGISLATION

As if the mortgage industry didn't have enough to worry about, Congress has decided to get into the act with a new bill aimed at the mortgage brokerage community. It is misguided to say the least with mortgage brokers being made the scapegoat for the sub-prime meltdown. In reality Congress should be looking at the securities firms on Wall St. responsible that sliced and diced these mortgage-backed loan pools and the investment ratings services like Moody's, Standard and Poors, and Fitch that graded them AAA. Before the House Financial Services Committee is bill HR 3915 also known as the Mortgage Reform and Anti-Predatory Lending Act of 2007. (Typically, congressional bills, have these lofty titles that make them sound like something that no right-thinking person would object to). Nevertheless, as is so often the case, there are parts that are very objectionable.



THE GOOD

The new legislation would require that all originators hold licenses under state or federal law. (At present, many mortgage bankers are not real estate-licensed but work under a lender's corporate license which is regulated by the Department of Corporations). The proposed legislation would force lenders to be reasonably sure borrowers are able to repay the loan they are offered. Every loan document would identify the originator under the national registry. The bill would require criminal background checks, testing to demonstrate basic knowledge of loan products and continuing education and professional ethics training for all originators. Another of the bill's provisions would reduce the "points and fees" trigger for "high-cost loans" under the Home Ownership and Equity Protection Act (HOEPA) from 8% to 5% and include all costs and fees charged to the borrower.

THE BAD

The legislation also seeks to eliminate the Yield Spread Premium (YSP) or rebate that mortgage brokers *may* receive from a lender. ***Even though any YSP received must be fully disclosed by mortgage brokers, mortgage bankers are not required to disclose the same.*** What they receive is called a Service Release Premium (SRP) and they are not required to disclose it, either. If legislators are going to eliminate Yield Spread, they should also eliminate SRPs and keep the playing field even for all parties. The premiums should not solely be a perquisite of who has the better funded lobby. Currently, mortgage brokers originate 60% of all loans. With this provision the banking lobby is trying to stack the deck against brokers to obtain an unfair advantage and corner a larger share of the mortgage market. The YSP enables mortgage brokers to stay competitive with mortgage bankers, if rescinded it will serve to promote monopolistic practices.

THE UGLY

The YSP has enabled mortgage brokers to tailor loans to benefit the borrower, ranging from using YSPs to pay off borrowers' prepay penalties to providing No Cost loans for owners seeking a refinance. It has also been instrumental in allowing brokers to provide buyers with Zero-Point loans. Often times, home buyers do not have money for origination fees or closing costs and without the YSP these buyers will be shut out of the market. Only borrowers who can fit into the narrow bank guidelines will be able to qualify. As a result fewer borrowers will qualify for homeownership or refinances, fewer homes will be sold, and fewer loans will close thereby impacting

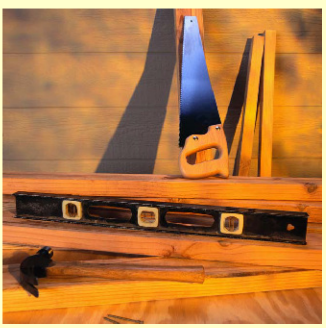
builders, realtors, lenders, and so forth. Eliminating the YSP will likely have a negative impact on the availability and affordability of all credit.

As of 11/16/07, the House of Representatives passed the bill 291-127. Fortunately, the bill was amended and the elimination of the YSP provision was struck from the bill. It now goes to the Senate for ratification.

THIS ISSUE'S TOPIC: WHICH HOME IMPROVEMENTS PAY BACK

Nearly one in five U.S. homeowners tackles home improvement projects during three day weekends according to a survey released by Opinion Research Corporation. Their survey of 726 homeowners showed that the most popular projects planned include:

- Painting a room – 61%
- Landscaping – 58%
- Kitchen upgrade – 32%
- Bathroom upgrade – 30%
- Adding attic insulation – 14%



But, which ones pay back? Recouping your remodeling investment may be your goal when you sell your house. But when it comes to resale value, all home improvements are not created equal. As a rule, kitchen remodeling projects and bathroom additions, almost always, payback 90 percent or more of their cost. Finishing a basement, however, usually pays back less than 50 percent. Other improvements fall somewhere in between.

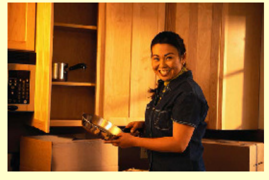
Consider these payback estimates for most typical home improvement projects:

Project
Cost - Average Payback

Add a new heating or air condition system
$2,000 to $4,500 75% to 100%

Minor kitchen remodeling
$2,000 to $8,500 94% to 102%

Major kitchen remodeling
$9,000 to $25,000 90%



Add a bathroom
$5,000 to $12,000 92%

Add a family room
$30,000 86%

Remodel bathroom
$8,500 77%

Add a fireplace
$1,500 to $3,000 75%

Build a deck
$6,000 73%

Remodel home office
$8,000 69%

Replace windows
$6,000 68% to 74%

Build a pool
$10,000 and up 44%

Install or upgrade
$1,500 to $15,000 30% to 60%

Finish basement
$3,000 to $7,000 15%

UNDERSTANDING PAYBACK VALUE

Payback value depends heavily on the real estate market and prevailing property values. If the market is slow, expect to see less payback than you would in a hot market. Also consider the neighborhood: if you remodel your house to twice the size of the

other homes on the block, it is unlikely that you will be able to sell at double the price. Issues that can influence payback value include:

- **Type of improvement**

Kitchen and bathroom remodeling projects consistently return the most in resale value and almost always help sell a house. Converting a basement into a family room yields the smallest return on investment.

- **Scope of improvement**

Projects can be large or small. Sometimes, the cumulative effect of small projects can pay back more in resale value than that of larger projects. Small projects tend to be cosmetic in nature: fresh paint, new doors, garden windows, and ceiling fans. Large improvements involve adding or upgrading living space.

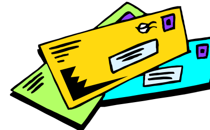
- **Desirability**

Today's fad may be tomorrow's standard. Backyard decks, for example, were difficult to find 30 years ago; now they are common. Decks may not have paid back very much in resale value decades ago, but as decks have become more desirable, their resale value has increased.

- **Cost**

The price of home improvements fluctuates depending on economic conditions and region. If remodeling costs are particularly high in your area--or home sale prices are particularly low--you may not recoup as much on your investment as you would if costs were in sync with sales prices.

MORTY'S MAILBAG



Q. What is a swing loan?

A. This is a short-term loan that allows a homeowner to purchase a new home before selling one's former residence. Example: Mr. Smith is moving from Seattle to San Diego. He finds a home to buy, here, but he has not sold his old home in Seattle. A lender makes a swing loan, lending him the $100,000 cash that he needs to buy his new home. Mr. Smith will repay the swing loan when he sells his old home in Seattle. These loans are also referred to as bridge or gap loans.

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

Under the Heading of Good News, Bad News, Worse News

Good: The postman's early....
Bad: He's wearing fatigues and carrying an AK47.
Worse: You gave him nothing for Christmas.

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

NEXT ISSUE'S TOPIC: THE ANNUAL FORECAST AND SOME MUCH NEEDED PERSPECTIVE