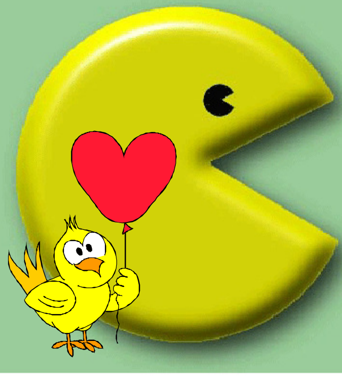

Newsletter - Vol. 4 Issue 2

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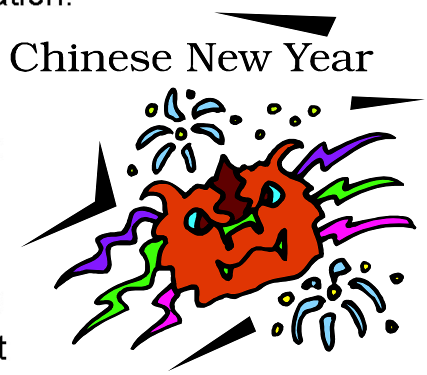
30 Yr. Fixed Conform. & Jumbo	**6.125 & 6.25%**
5/1 ARM Conform. & Jumbo	**5.875%**
Prime Rate	**8.25%**
MTA Index	**4.933%**
COFI Index	**4.358%**
Home Ownership Accelerator Index	**5.328%**

Morty's Bench Marks - 1/29/07

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

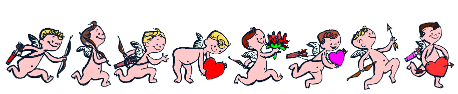
CURRENT EVENTS

With the New Year less than a month old, a lot of New Year's resolutions have already been broken. One that has not is the Fed's continuing resolve to curb inflation. The unexpectedly high Jobs Report surprised a lot of traders and revealed that wages increased 4.2% over last year further adding to inflation.



Abroad, China's central bank appeared similarly focused on slowing economic expansion and containing inflation when it raised reserve requirements for banks on January 5th. Not far behind, on January 10th, the Bank of England raised interest rates by a quarter percentage point to 5.25% to head off rising inflation amid a boom in the housing market and strong economic growth. As I mentioned last month, dollar-denominated assets have less appeal compared with the looming prospect of higher returns in Europe and elsewhere.

These developments are added fodder for the Fed not lowering rates anytime soon because of the adverse impact on currency exchange rates. The fixed income and equity markets appear to be rethinking their beliefs that the Fed will be lowering interest rates in the first half of this year and may not lower them until the third or fourth quarter, if at all.



THIS ISSUE'S TOPIC: LOAN PRICING DETERMINANTS (PART 2)

FOREWORD: Because of the length of last month's topic, this is the conclusion of a two-part series that covers the potential 12-17 pricing factors that are involved in answering the question of "What's your interest rate? (for a given loan)

RATE vs. PRICE

To review: there are two elements that determine an interest rate quote: one is the INTEREST RATE, the other is PRICE. The INTEREST RATE is the prevailing percentage of a sum of money charged for its use. The PRICE is the amount that one has to pay obtain a particular rate. Example: The interest rate for a loan of $500,000 is 6%, but the price to obtain this rate may be .5% or $2500. Par pricing is where there's no money paid or rebated to obtain a particular rate. New loan officers frequently use the two interchangeably with disastrous results. They make adjustments to rate instead of to the price and vice versa.

Whether **adjustments** for various determinants correspond **to rate** or **to price** are **indicated by bold-faced type**. NOTE: to maintain a degree of uniformity, the pricing spreads for the following determinants are all from a single lender on the same day. Aside from lenders' guidelines and Debt To Income (DTI) ratios the following factors will impact the rate and pricing:

To recap: In the previous issue, 6 of the 12-17 interest rate determinants were covered. They were: loan amount, LTV, FICO score, occupancy, property type, and loan type. Today's discussion will focuses on the remaining 11 factors that affect a loan's interest rate.

DOC TYPE

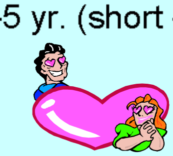
The basic rule of thumb is that the more documentation you're willing to provide the less risk that is attached a loan for a lender. Consequently, lenders are willing to discount the price. In ascending order of price would be Full Doc, Stated Income with Verifiable Assets (SIVA) and Stated Income with Stated Assets (SISA), NO RATIO (NORA), NIVA (No Income, Verifiable Assets), NINA (No Income No Assets), and NO DOC. The spread between the different programs is all over the place. Different lenders may offer stated income loans at the same price as full-doc or price them a ¼ - ½ point higher. As the LTV increases, the price of the loan jumps accordingly. For example, there's no difference between the spread on a NIVA and a NORA at 60% LTV and only a ¼ point bump for a NINA. But with an LTV of 95% the price for the NIVA is ¾ of a point, the NORA is a full point and the NINA 1.875%. For a fuller explanation of the differences in loan doc types, see the May newsletter (or on the web vol. 3 issue 5).

INDEXES

There are several different indexes. Among the most well known and frequently used are the CMT, the LIBOR, the COFI, the MTA, and the COSI. The interest rate spread is often as much as a full point. For example, right now the COFI stands at 4.38%, the MTA, at 4.82% and the LIBOR, at 5.34%. But this is only part of the story, because the indexes with the lowest interest rates usually have higher off-setting margins which negate the difference in the indexes. Incidentally, difference in the indexes is a factor of their volatility. Some are more stable than others. When rates are rising, those with the greatest volatility will spike the most quickly, but when rates are falling they will, likewise, be the quickest to drop. For an in-depth discussion of the various indexes, see the December newsletter (vol. 2, issue 10 on the website).

LENGTH OF FIXED RATE

Normally, the shorter the period that the rate remains fixed, the cheaper it is. Thus a 6 month Libor (where the rate is fixed for 6 months and adjusts based on the LIBOR Index) is apt to command a lower rate than say a 3/1 Treasury (where the rate is fixed for 3 years and adjusts annually based on the CMT (Constant Maturity Treasury Index). The fixed rate periods range as follows: 1 month, 6 month, 1 yr., 3 yrs., 5 yrs., 7 yrs., 10 yrs., 15 yrs., and 30 years. Thus, a loan that's fixed for 30 years would command the highest premium. With a normally ordered yield curve one might expect to see an eighth of point spread between the various fixed rate periods. I say normally, because in the past few years we've had several instances when the yield curve has been inverted, during which time, short term (6 mos. - 3 yrs) money at fixed rates has cost more than intermediate term money (5 - 7 yrs.) and numerous instances where long term (10 - 30 yrs.) was less expensive than 3 -5 yr. (short - intermediate term) money.



TERM

A rule of thumb that may be applied here is the shorter the term, the cheaper the **rate**. The options normally afforded a borrower are: 15, 30, 40 and even 50-year terms. Some lenders also offer 10 year terms based on 15 year pricing (with a .25% adjustment) and 20 year terms based on 30 year pricing (again, with a .25% adjustment downward). With 40+ year terms one can expect to see price bumps ranging from .25% to .625%.

LOCK PERIODS

The range of lock times is between 15-75 days. Lock times come in 15 day increments; the longer the lock, the higher the **price**. At present, the spread is about 1/16 of a point per 15 day extension.

CASH OUT

If you're refinancing a property and need cash out (beyond $2,000) you can expect to see a .25% adjustment upward in the **price.**

PREPAYS

They come in increments of 1, 2, 3, & 5 years. The value to the borrower is that your broker may be in a position to offer you a zero point loan, that is, one with no origination fee. Thereby, saving you thousands of dollars.

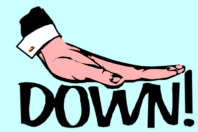
POINTS, OR NO POINTS?

Do you want the lowest rate or the lowest price? If you want **the lowest rate you'll opt for the wholesale price, but this will necessitate an origination fee. If you desire the lowest price, you may be able to get a rate only a quarter percent higher that will pay the broker a rebate, thus saving you thousands of dollars in origination fee. If you're holding time is less than 5 years, it will probably benefit you to go with rebate pricing as opposed to wholesale pricing. (See Prepays above. In certain instances you may be able to get the best of both—a rate at par with no origination fee, if you elect to go with a prepay).**

IMPOUNDS

Some lenders offer reductions to borrowers if they have their taxes and insurance impounded because it diminishes the chance of a tax lien (which would affect the lender's collateral) or lapses in insurance coverage (which would affect the lender's security). The differential is ordinarily .25% in **price**.

BUYDOWNS



Interest rates can be bought down either permanently or temporarily. Buy downs are not cheap, however, as a "general rule of thumb, "a discount point of 1% will lower your fixed interest rate loan .25% and your adjustable interest rate loan .375%. In other words, it would be necessary to pay 1% of the total loan amount in **price** to lower your rate a ¼ to 3/8 of a percent.

2NDs

With LTVs (Loan To Value) above 80% one has 3 choices: 1st loan with Mortgage Insurance included, a fixed rate 2nd or a variable rate loan like a HELOC (Home Equity Line Of Credit). With an LTV in excess of 80% one can expect one's price on the 1st to increase anywhere from .25% to 1.5% depending on one's FICO and LTV.

(Note: as of 2007 the Mortgage Insurance premium becomes fully tax-deductible for borrowers who make less than $100,000 per year.)

IF SOMEONE QUOTES YOU A RATE WITHOUT TAKING THESE 12-17 FACTORS INTO CONSIDERATION, I WOULD STRONGLY QUESTION THEIR CREDIBILITY AND PROFESSIONALISM.

MORTY'S MAILBAG

Q. When we filled out our Loan Application I noticed that below the section labeled Gross Monthly Income there was a designation "Other income". What are they referring to, part-time or second jobs? What qualifies?

A. There are many other potential sources of income (like Social Security and Disability payments, to name but two) and the use of them for qualifying comes down to a very simple rule. It must be reliable, recurring, verifiable and extend into the future for at least 3 to 5 years.

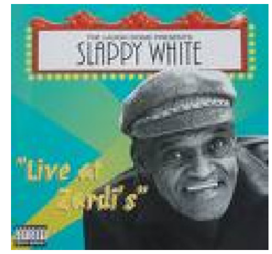
Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. (See front of issue for phone and fax numbers). Morty's email address is....
Morty@MortgageStraightTalk.com

HAVE YOU HEARD FROM ME, YET?

If not, I'll be calling to ask you a question or two. Many of you read the newsletter (I know, because I get compliments on it from time to time); others, probably, circular file it. I'll be contacting you to find out which camp you're in. I want to know because each issue costs me a $1.50 per copy with printing, paper, and postage. (Those little inkjet and laser cartridges don't go very far).

The other reason is that I'm looking for ways to improve the newsletter, so if you have any ideas, topics you'd like to see me treat, or features you'd like to see implemented, I'm all ears.

MORTGAGE MIRTH



Slappy White, the comedian, once observed: "The trouble with unemployment is that the minute you wake up in the morning—you're on the job!

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

NEXT ISSUE'S TOPIC:

TOP TEN MISTAKES BUYERS MAKE WHEN BUYING A HOME