
# Newsletter - Vol. 4 Issue 3

## *March 2007*

mortgagestraightTalk.com



Tel: 760-726-4600 Cel: 760-717-8584

Fax: 760-639-0785

Rod@MortgageStraightTalk.com


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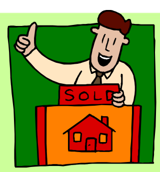
|---|---|
| 30 Yr. Fixed Conform. & Jumbo | 5.875 & 6.125% |
| 5/1 ARM Conform. & Jumbo | 5.75% |
| Prime Rate | 8.25% |
| MTA Index | 4.983% |
| COFI Index | 4.396% |
| Home Ownership Accelerator Index | 5.32% |

**Morty's Bench Marks - 2/26/07**

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

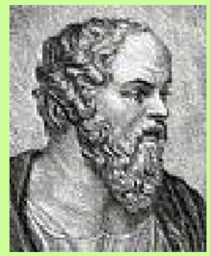

### CURRENT EVENTS

This month, the significant news items regarding mortgage rates have been even shorter than the month itself. The highly anticipated Jobs Report came out on Feb. 2. It showed 111,000 new jobs were formed in January, below the expected 150,000 forecast. Thus, it was no surprise when the Fed decided to keep the Fed Funds Rate unchanged at 5.25%, but indicated that they are continuing to keep a vigilant eye on inflation, and will raise rates further if inflation picks up steam. Despite this, I foresee no change in the Prime Rate when the Fed meets next on March 21st.


### THIS MONTH'S TOPIC: THE MINDSETS OF BUYERS, BORROWERS AND BROKERS

I've chosen to deviate from the topic that I had promised in last month's newsletter and defer it to next month. Usually, I write expositorily on a subject. But this is not one of those times. Recently, three instances, one involving a former client, the relative of another client, and a realtor referral have caused me to re-examine the agendas and interactions of borrowers, buyers and brokers. The actual case histories illustrate, perhaps, better than any academic discussion could, the misunderstandings that have become routinely ingrained in the mortgage industry. Because of the length of this month's newsletter and the similarity between the actual case histories and the real world questions of "MORTY'S MAILBAG" I am going to dispense with the latter for this issue.



"The unexamined life is not worth living."
--Socrates

From time to time, everyone experiences miscues in their personal or professional lives and their underlying value lies in examining their causation and the coping mechanisms we adopt. I write this newsletter for a variety of reasons: for purposes of marketing, to benefit my readership, and to clarify my own understanding of the mortgage business. The reason for which I least write a newsletter is that it's therapeutic. But occasionally, it provides me a forum for venting some of my frustration with the egregious misapprehensions of borrowers, buyers and sellers in real estate.

With the advent of the Internet and the myriad of telecommunications that exist, real estate borrowers and buyers alike have become rate shoppers as never before. Ironically, despite most borrowers' fixation on rate, the average person overpays for their mortgage and is woefully undereducated when it comes to financing real estate.

We've all heard the bromide, "that a little knowledge can be dangerous." It is no less true here. On my website, under the Talking Points header is a gateway page with the following admonition: **Being an informed borrower is in your best interest!** (You may not know what you think you know…). To the left are 15 to 20 mortgage related topics that cover everything (within reason) that the layperson might ever need to know about loans and the loan process. I encourage borrowers to become informed because they make better clients. Still, there are not insignificant numbers that resist one's efforts at clarification or who are unwilling to correct their misunderstandings because it's easy and they're comfortable with their ignorance. I've, also, heard some brokers and bankers claim "that borrowers are simply getting what they deserve."

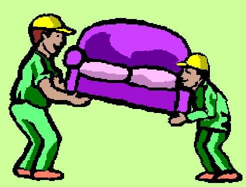
**WHEN A CUSTOMER IS UNABLE TO DETERMINE HOW A PRODUCT OR SERVICE IS BETTER, WORSE OR DIFFERENT FROM A COMPETITOR'S, A CONFIDENCE GAP OCCURS AND THE CUSTOMER WILL NECESSARILY DEFAULT TO PRICE.**

The majority of borrowers, focus on about one-fourth of what comprises a mortgage transaction. They understand that a 5% is better than 7% when it comes to rate. What the average borrower and many loan officers fail to take into account are the other components of financing real estate, namely term, tax shelter, and leverage. I come from a financial planning background and I find that these elements, more often than not, have a far greater impact on a homeowner's finances than rate.

If this is so, it begs two questions: why do borrowers continue to shop for rates and why do most brokers try to sell rates rather than expertise and service? I'm convinced, the reason, in both cases, is because IT'S EASIER—for the ill-informed to remain ignorant and for the seller of said services to quote a rate (however misleading) rather than trying to educate his/her borrower or buyer. The other reason that mortgage bankers and brokers sell rate is because it's easier to charge more for a process that is little understood. Despite these caveats about how some practitioners operate, not everyone is out to fleece you.

The major thing that borrowers seem to be unclear about is that there are **two elements** (among a host of others) **that determine a rate quote**: one is the **INTEREST RATE**, the other is **PRICE**. The **INTEREST RATE IS THE PERCENTAGE RATE THAT THE MONEY IS BEING LENT AT.** The **PRICE IS THE AMOUNT THAT ONE HAS TO PAY TO OBTAIN A SPECIFIC LOAN AMOUNT AT THE SPECIFIED INTEREST 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)**. **Discount points** (money paid by the borrower to the lender) are used to **buy the INTEREST RATE down**. **Rebate points** (money paid by the lender to the broker) are used to **buy the PRICE down**. **PAR PRICING is where there is NO MONEY PAID OR REBATED to obtain THE SPECIFIED RATE**. Thus, to obtain **par pricing (or at no cost)** for the same loan amount of **$500,000** as in the previous example, the interest rate would likely be increased to **6.25%**. If your knowledge is less than

"professional", it's best to know with whom you're dealing. Despite this caveat many borrowers attempt to outwit professionals by employing a variety of tactics. Some borrowers are loathe to admit their lack of knowledge or understanding for "fear of being taken". Others will "fudge the truth" and fish for a rates by saying that "so and so quoted me X % (a rate a .25% below what they were actually given)….can you do better?" No one can compete with liars and incompetents because what they're offering are loans that don't exist! And, still others, employ bravado: I can't begin to tell you how many people I talk to, who because they've bought a home or two, or refinanced once or twice, think that they're pretty much an authority on real estate finance. **AS SHARP AS ONE MIGHT BE, IT IS UNLIKELY THAT YOU'LL SAVE THE KIND OF MONEY YOU WOULD, IF YOU HAVE AN ETHICAL PROFESSIONAL LOOKING AFTER YOUR BEST INTERESTS.** I do what I do 40-50 hours a week and I find there are constantly new programs being introduced or programs which may benefit a borrower.



**Mortgage Factoid**: the average Californian moves every 6 years and 4 months and refinances, on average, every 3 years and 7 months. What this means to me, as a mortgage broker, is that a homeowner is legitimately interested in talking to me two times in ten years or, on average, once every 5 years. Consequently, I do everything within my power to give them what they want--or something even better. Now that I've gotten all the prologue out of the way let's get down to actual case histories.


In January, a client whom I had refinanced 3 years earlier called me early one Friday to say that she had lost my number and had to "Google" me in order to locate me (evidently, she had not been receiving or reading the newsletter). I was flattered, not just by her faith in me, but also by her resoluteness and industry.

She told me that she and her husband, a dentist, were looking to lower their payments and refinance out of their **$700,000 15-year fixed-rate loan @ 5.875%** into a **$900,000 30-year fixed rate, with $200,000 cash out for purposes of debt consolidation and improvements**. I pulled their credit and called her the following Monday and told her that I could do **a zero point loan @ 6.375% plus the added tax shelter benefits afforded them by paying off their high interest rate credit cards.** She was less than overjoyed because she didn't want to part with the 5.875% rate I'd gotten her earlier. She was fixated on rate.

I explained to her that this was a case of "that was then and this is now". I reminded her that the Fed Funds rate, a pre-cursor to the Prime Rate, had been at 1% back then, but it was now at 5.25%. The fact that I could get her a rate that was only a ½ percent higher for twice the length of her original term I deemed fairly remarkable.

She countered, "But our credit was in the low 600's then, now we're above 680" (A paper territory). She speculated that maybe a Home Equity Line of Credit (HELOC) for $200,000 would be a sensible substitute. I pointed out to her that even with a HELOC below the current Prime Rate (8.25%) they'd be paying somewhere between 7.5% & 7.75%. She said maybe they'd hold off on doing anything until rates dropped in a few months. I told her that I didn't foresee rates dropping, before the end of the third quarter of 2007, if at all. She said she'd talk it over with her husband and they'd let me know what they decided to do.

Four days later, I still hadn't heard back from her (never a good sign), even though I'd sent her a couple of emails and forwarded via snail mail a number of pieces of loan, investment, and credit literature. So, I called her back. I suggested another option: a zero point loan of **$900,000 @ the same 5.875%** they currently had, thereby **saving them about $3818 per month.**

She complimented me on "really going after a sale" and emailed me back that after I'd given them my original quote on a 30-year term, "in the 6's" her husband had called Greenlight Financial and been quoted a rate of **5.875% on a 30-year fixed with no points and closing costs of just $295**. She added that they weren't sure what they were doing yet but promised to let me know.

The way in which points are sometimes quoted is all-important. Some lenders include discount and origination points in their quoted points. Other lenders may only quote discount points. **Corporate real estate licensees and mortgage bankers** (Greenlight Financial, E-Loan, Chas. Schwab & Co., et als) unlike mortgage brokers, **ARE NOT REQUIRED TO DISCLOSE THEIR REBATE** on the Good Faith Estimates (GFEs).

It may sound cynical but it would seem that mortgage bankers and corporate licensees have better lobbyists than the National Association of Mortgage Brokers (NAMB). While rate is important, you have to consider the overall cost of your loan. One needs to pay close attention to the APR, loan fees, discount and origination points.

I replied that I had researched this with 20 different lenders and that rate didn't exist for a jumbo (loan amount above $417,000) for a 30-year fixed and that anyone doing it would have to pay a point to buy the rate down on 30-year fixed rate loan.

I suggested that most likely one of two things was happening either the rep had inadvertently OR deliberately misquoted her husband OR that her husband had misunderstood some part of the quote. I told her that if she'd send me a copy of the Good Faith Estimate I'd welcome the opportunity to show her why it was not valid **OR** how I could improve it. In the meantime, I analyzed their entire consumer debt picture and sent out my proposal showing how I could **save them about $3800 a month** over what they were currently paying **as well as another $15,000 in tax deductions**.

In my desire to leave no stone unturned I contacted Greenlight Financial and asked them for a quote using the same loan parameters and was told that they could do a **zero point loan, 30-year fixed rate loan @ 6.75% with closing costs of $295.** I told Greenlight that one of my "friends" had been quoted a rate @ 5.875% to which the agent said they could do that but it would cost of 3.25 points (or $29,250 in this case) to buy the rate down. I asked about a 15 year term and was told that it could be bought down to 5.25%, again, if one were willing to pay 3.25 points.

I communicated this to the borrower and she said she'd mention it to her husband and they'd let me know. In the meantime I refined the 15 year deal further and found two lenders that were willing to give me a rebate such that I could do a zero point loan @ 5.75%. But, I received no further communiqué from my borrower.

After two more weeks, I called her—to see what they had decided. She said they'd gotten the loan from Greenlight. "And it was just as represented--they got a **zero point, 15-year fixed rate loan and only paid $5900 plus closing costs of just $295."** "Well," I asked, "how could it be a zero point loan if you paid $6000 for it?" "Because," as she put it, **"we did some other things."**

What Greenlight had done was charge them **$5900 in discount points (to buy the rate down) but represented it as a "zero point" loan because there was no origination fee AT THAT RATE.** The loan that I had found for them was an **1/8th cheaper in rate and $6,000 less in fees but the closing costs on my loan were about $3500 higher.** Net result: they **paid $2695 (5900 + 295 – 3500) more for a higher rate,** but they thought they got a better deal because the husband and wife didn't understand the difference between a discount point and a rebate point and what a zero point loan is! For those of us who are ethical, not to mention all the work you put into a deal for a client, these are the ones that break your heart.

Another client referred his brother to me. The brother had an asset account with E-Trade and their mortgage division, E-Loan was offering him **a 30 year fixed rate loan of $417,000 @ 5.875% with zero points and he wanted to know if I could beat it. A week or two earlier when E-Loan quoted the offer, I could have easily beaten the rate, but the rebate pricing had worsened and again it was a case of "that was then and this is now" so all I could do in good faith was quote him the rates that existed as of that moment. And speaking of Good Faith, I asked him if he had one--a Good Faith Estimate (GFE) and a rate lock @ 5.875%. He said, "No, but that was what they quoted me."** IF THE RATE IS NOT LOCKED AND IT'S NOT IN WRITING, YOU HAVE NOTHING.

Rates move daily and sometimes intra-day, as well. The lender may honor their quote (easy to do if rates have fallen), but then again, they may not (unlikely in the event they've risen).

Most homeowners have grown up with the notion that the 30-year fixed rate mortgage is the gold standard in terms of desirability. Yet **only 3%** of Californians will carry their 30–year fixed-rate mortgages to completion. Why? Because as I alluded to earlier, 50% will move within 6 and 2/3 years and another 50% will refinance within 3 years and 7 months (Source—California Association of Realtors). This begs the question why pay a premium of 12% to 20% for a 30-year fixed rate mortgage that 97% of homeowners will never utilize.

I went back to this borrower with what I termed two unbeatable deals:

1) A **zero point,10/6 ARM loan (fixed for 10 years, adjusts** semiannually beginning in year 11) **@ 5.25%**

2) A **zero point, 5/6 ARM loan (fixed for 5 years, adjusts** semiannually beginning in year 6) **@ 5%**

He said, in effect, "thanks, but no thanks," because he was fixated on a program, even though what I was offering was between 12.5-17.5% cheaper. In fairness to him, you have to respect a borrower's comfort zone and he admitted that he was conservative. Yet, he was content to pay a one full-percent more for a program that there was about a 3% chance that he would ever use.

The last I heard, he went ahead with E-Loan and I don't know what he ultimately ended up with. Borrowers are often "penny-wise, pound foolish".

The last case involves a couple that were referred to me by a realtor. They had owned a home before, back East, but were a bit surprised by the price of real estate and as a result had been renting. The referring realtor had nice things to say about me and they were wondering if I could help them. Now, they were looking to buy and they told me that they had stock and retirement accounts through Chas. Schwab & Co. Schwab had approved them for a maximum purchase of $812,500 and offered a rate of 6% for the 1st ($650,000) with no points and I don't recall if they ever mentioned the rate for the 2nd. Because of what had recently transpired, I thought, "Oh here we go, again."

The wife, an attorney, had managed the family finances very well—almost too well—because they had virtually no debt and consequently very few open credit lines. Nevertheless, they were willing to be guided by a couple of professionals and willing to listen to suggestions. The realtor found them a house that was about $50,000 more than Schwab had approved them for and I found them a lender and a loan for the higher amount. Subsequently, the wife told me that to get the **6 percent rate Schwab had quoted they were actually paying 1.875 points to get that rate. I said, "I thought you said this was a zero point loan they were offering." She wasn't clear on whether that 1.875 referred to discount points or something else. The net result was that I found a lender with 100% financing on an $860,000 purchase with a very advantageous niche for high FICO borrowers such that they ended up with a rate of 5.75% interest only (I/O) with zero points.**

No one lending institution does all things well. Mortgage bankers, such as a Schwab & Co. or an E-Loan have a limited range of programs. Generally speaking, it's better to have a choice when it comes to products, services, rates and ability to qualify. Mortgage brokers clearly have the edge in this regard.

Moreover, as a broker, I shop for rates and programs and price my loans among 15-20 different lenders. On the other hand, I know there are many brokers that don't shop—they just stick the client into the first loan that satisfies the borrower's parameters. Even I, shopping as much as I do, am amazed by the fact the lender that had great rates for a given program last month may no longer offer competitive rates or programs a few weeks later. Not only does it pay for brokers to shop around—it's our job. Note, I said brokers, not borrowers. The major difference among the previous examples was that in the last case, the borrowers allowed a couple of real estate and mortgage professionals to do what we are paid to do--to shop for their clients and provide economic benefit and counsel throughout the transaction. As licensed professionals, we have a fiduciary responsibility to do precisely this.

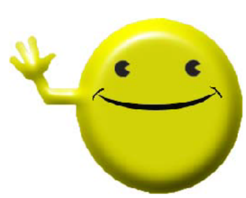
Bottom Line: If you're going to hire a professional, know whom you're dealing with and trust them to do their job.

**MORTGAGE MIRTH**

[Forgive me Lily and Kingsley] Did you hear the one about the unfortunate Chinese couple whose son had a learning disability and compounded the problem by naming him Sum Ting Wong?

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

**MORTY'S MAILBAG WILL RETURN NEXT MONTH!**



**NEXT ISSUE'S TOPIC: TOP TEN MISTAKES BUYERS MAKE WHEN BUYING A HOME**