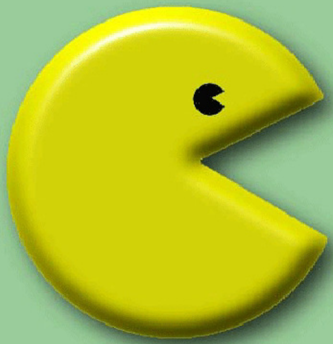

Newsletter - Vol. 4 Issue 8

August 2007

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30 Yr. Fixed Conform. & Jumbo	6.375 & 6.875%
5/1 ARM Conform. & Jumbo	6 & 6.125%
Prime Rate	8.25%
MTA Index	5.005%
COFI Index	4.293%
Home Ownership Accelerator Index	5.32%

Morty's Bench Marks - 7/30/07

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

CURRENT EVENTS

After a tumultuous 1st and 2nd quarter in the bond and equity markets, it appears we may have finally entered the dog days of summer with comparatively little going on. Though it was too late for inclusion in the July newsletter and hardly earth-shaking, when the governors of the Federal Reserve met on June 28th and 29th they did what was expected all along—they kept interest rates right where they've been for the past year. With inflation figures in the upper end of their target range of 1-2% they saw inflation moderating as a result of staying the course with their monetary policy. Consequently, the Fed chose to maintain the status quo: the Fed Funds Rate remains pegged at 5.25% and Prime Rate at 8.25%. More recently, the Bank of England raised its base lending rate up to 4.75% while the European Central Bank (ECB) chose to pause with expectations of rate hikes latter this year.

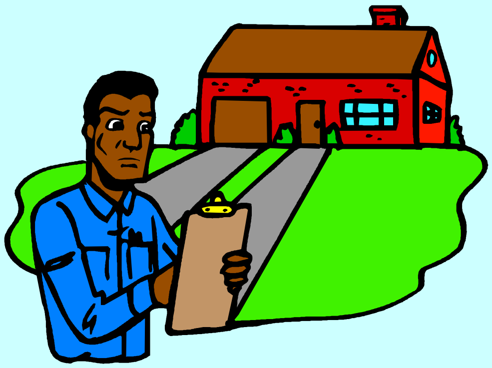
As I pointed out last month, when the interest rates on U.S. Treasury notes lag behind foreign rates, American bonds become less attractive to foreign investors. These are yet two more reasons that one should not expect to see a drop in our short-term or long term rates any time soon. While these developments provide little succor for a nearly nationwide slumping housing market, sales rose in the Northeast by 5.8% in Q1 & Q2, according to the National Association of Realtors which serves to prove, once again, that real estate is very much of a regional phenomenon.

FOR WHAT'S IT WORTH

In mulling over what to write about this month it dawned on me that there was one essential component of both purchases and refinances that I had not given its due—appraisals. Everyone thinks they know what an appraisal is. But, if you read on, I promise to give you a different view of appraisals, i.e., unless, of course, you're an appraiser.

First off, don't confuse a comparative market analysis, or CMA, with an appraisal. Real estate agents use CMAs to help home sellers determine a realistic asking price. Experienced agents often come very close to an appraisal price with their CMAS, but an appraiser's report is much more detailed--and is the only valuation report a bank will consider when deciding whether or not to lend the money. CMAs are also known as BPOs (for Broker's Professional Opinion).

The purpose of a real estate appraisal is to establish a property's market value—the likely sales price it would bring if offered in an open and competitive real estate market. A lender requires an appraisal when a home or other real estate is security for a loan because it wants to make sure that the property will sell for at least the amount of money it is lending.



TYPES

Appraisals vary with the type of property and the situation. Most borrowers are familiar with the ones that pertain to their own abode, whether it be a single family residence (S.F.R) a planned unit development (P.U.D.) or a condominium. Purchasers of income property are required to have an appraiser do a rent survey and a net operating statement along with an appraisal when a buying a multi-unit building like duplex, triplex, 4-plex or condo. The values of vacant lots are assessed on the basis of utility (usage), improvements (water, gas, electricity and sewers) and views.

A field review is essentially one appraiser assessing another appraiser's appraisal. These are often required when the property being purchased or the loan amount is in excess of 1 million dollars. Yet another type of appraisal is an update or completion appraisal on new construction or a remodel.

ABOUT APPRAISERS AND APPRAISALS

As the saying goes about so many things in this life…there are appraisers—and there are appraisers. An appraiser may have various accreditations but **lenders will only accept appraisals from state licensed appraisers.** As with any profession, there are bad ones and good ones. Lenders have "black lists" of appraisers from which they will not accept an appraisal. The reasons that fee appraisers end up on such lists range from trying to cut corners (as in being less than thorough) to trying to "stretch value" for a realtor or mortgage broker by pegging the value of the subject property to what the realtor needs for the sale or the mortgage broker for a refinance. Bottom line: lenders see these individuals as failing to provide credible appraisals.

Appraisers are supposed to function as an objective third party with no interest or connection to any person involved in the transaction other than to provide a quality appraisal. The ideal is to provide an objective valuation even though every appraisal is subjective in nature. The object of an appraisal is called the *subject property*.

WHAT'S ON AN APPRAISAL

When you first view an appraisal you may be overwhelmed by the welter of information that appears. While they are detailed, they break down into a number of key areas which include:

· Details about the subject property, along with side-by-side comparisons of three similar properties.

· An evaluation of the overall real estate market in the area.

· Statements about issues the appraiser feels are harmful to the property's value, such as poor access to the property.

· Notations about seriously flawed characteristics, such as a crumbling foundation.

· An estimate of the average sales time for the property.

· What type of area the home is in (a development, stand alone acreage, etc.)

· Photos of the exterior and interior of the subject property, of street scenes, and of comparable properties.

RESIDENTIAL APPRAISAL METHODS

Of the three appraisal methods, only two are commonly used for *residential properties*:

Sales Comparison Approach

The appraiser estimates a subject property's market value by comparing it to similar properties that have sold in the area. The properties used are called *comparables*, or *comps*.

Cost Approach

The cost approach is most useful for new properties, where the costs to build are known. The appraiser estimates how much it would cost to replace the structure if it were destroyed.

Income Approach

This method uses the income stream or gross rents to determine the value of apartment buildings, shopping centers, office buildings, industrial properties and warehouses, resort and recreational properties, hotels, motels, and restaurants.

THE GOOD, THE BAD, AND THE GRID

A good appraisal supports The Three Cs of Appraising: **Close, Current, and Clone**. What this means is that comparable properties or "comps" need to be Close (within a mile of the subject property). Additionally, the comps need to be Current (ideally within 6 months) and a Clone (with features similar to the subject property). A good appraisal has a relatively close range of values.

A bad appraisal displays The Three Ds of Appraising: Dated, Distant and Dissimilar. The three are the essentially the exact opposite of the three Cs. Dated meaning the a sales comp is over 6 months old; distant, more than a mile from the subject property; and dissimilar in that the comps don't share dominant features with the subject property

THE GRID

The grid is typically located on page three of the appraisal and it is where the subject property is compared alongside three comparable properties and adjustments are made to bring them into parity. There are good and bad grid adjustments. An example of the latter would be an "across the grid adjustments" that is, one wherein the subject property was located on a heavily trafficked street but none of the sales comps were. Sales comps with ocean views whereas the subject property had none would be another example of an "across the grid adjustment" that would indicate a poor choice of comps. It is the overriding aim of appraisals to compare like with like. More than five adjustments in the 90% section (or from the basement up portion of a property) tends to be looked down upon because of the dissimilarity between the subject property and the comps chosen. The price range of the comps should also be within a relatively narrow price range, certainly no more than $50-75,000.

ADJUSTMENTS TO THE GRID

Although it's desirable to compare "apples to apples", as discussed no two properties are exactly alike, even homes with identical floor plans will have different views and traffic streets. As a consequence adjustments need to be made to reflect variations between the subject property and the sales comps. This is done by making paperwork adjustments to the comps in order to make their features more in-line with the subject property's. The result is a figure that shows what each comp would have sold for if it had the same components as the subject property.

Adjustments are made either up or down depending on the property and the neighborhood. Sometimes homeowners over-improve their property relative to the neighborhood. A swimming pool would be an obvious example of upward adjustment. But an appraiser would not adjust for the full extent of its cost because many buyers do not want the additional expense of maintenance, and responsibility that go with having one. A subject property may be adjusted down because of its floor plan or functional utility. An example of poor functional utility would be one in which a homeowner added a bedroom, but the only access was through another bedroom.

SO WHAT DOES THE APPRAISAL MEAN TO YOU?

Your personal approval is accomplished early in the loan process, but final loan commitment usually hinges on a satisfactory appraisal. The bank wants to be sure its investment is covered in case you default on the loan.

If the property appraises lower than the sales price, the loan might be declined, but that isn't the only hurdle it must pass. Other facts on the appraisal can be a problem, too:

- The bank probably won't like it if the estimated time to sell the property is longer than the area average.

- If the appraiser notes that entry to the property is from a private, shared road the bank might want to see a road maintenance agreement signed by everyone who uses the road, verifying that maintenance is shared by all parties.

These are just a couple of examples of off-the-wall considerations that could hinder your purchase. The lender will study the appraisal carefully before determining whether or not the property qualifies to serve as security for your loan.

ONE CAVEAT!

Appraisers make notations about obvious problems they see, but they are not home inspectors. They do not test appliances, look at the roof, check the chimney or do any other typical home inspection tasks. Never count on an appraisal to help you determine if the home is in good condition.

COSTS

Appraisals for most homes are in the range of $350-$400, nowadays. Rent surveys and net income operating statements usually run an additional $300. Field Reviews and BPOs are in the neighborhood of $100-200. In most cases, the cost of an appraisal is designated as P.O.C. or Paid Outside of Closing because the appraiser expects to be paid for his work when it is completed rather than having to wait for an escrow to close. Because some (escrows) never do, appraisers often ask the mortgage broker or realtor to guarantee payment or require an additional $25 or $50 if they are to be paid at closing.

The one thing that astounds me is how many people pay for appraisals and yet never receive them. What I mean by this is that often times people come to me because whomever they were dealing with before was unable to complete the transaction. More often than not, although the client has paid for the appraisal the previous mortgage broker has not seen fit to forward one to the client. The fact that someone would pay in the area of $350 to $400 for something and yet never insist on receiving a copy of it is truly staggering to me.

There are many reasons to obtain an appraisal. The most common reason is for the purchase or refinance of real estate, but there are others. What follows is a list of reasons that you may not have thought of:

- to lower your tax burden
- to establish replacement cost of insurance
- to contest high property taxes
- to settle an estate
- as a negotiating tool when purchasing real estate
- to determine a price when selling real estate
- to protect your rights in a condemnation case
- because a government agency like the IRS requires it
- one is involved in a law suit e.g., a divorce.

ONE FINAL THOUGHT…

If you need a good appraiser, call me or visit my website. (Left click on the promotions tab at the top of the home page, right click to open it, then scroll down to Morty's List and after the Realtors heading you will see a list of appraisers for San Diego, Riverside and San Bernadino counties).

MORTY'S MAILBAG

Q. Can you explain "seasoning" to me I don't understand the purpose of it?

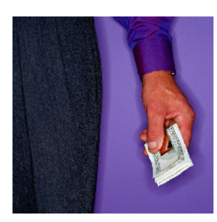
A. The purpose of "seasoning of funds" is to ensure a borrower's viability. Lenders want to make certain that the income and assets that borrowers claim on their loan application are legitimately their own. Conforming guidelines require that any funds used to satisfy down payment, closing costs and reserve requirements must come from the borrower's own resources. On a practical level, this means that funds must be in the applicant's possession for at least two to three months or "seasoned". Typically this entails two to three months of bank statements or other documentation demonstrating that funds have been in the applicant's possession.

Lenders are very concerned about potentially borrowed funds, because these would increase the borrower's liabilities and may disqualify the borrower's debt-to-income ratios. The borrower must explain events that may indicate borrowed down-payment funds:

1. New account. A savings or checking account that was recently opened may indicate borrowed funds.

2. Sudden deposit. An existing account that suddenly contains a significantly higher than average balance may indicate the deposit of unacceptable funds.

3. New loans. A new loan may indicate that the applicant has borrowed money for the down payment. A more serious event may be if the lender sees several inquiries on the credit report indicating that the borrower is racking up debt. For example, if the borrower's credit report shows several inquiries by car dealerships, the lender will want to know if the borrower has just obtained a car loan.



4. Undocumented money. Due to verification difficulties, "cash on hand" and "mattress money" are not acceptable liquid assets with conforming loans; however, many non-conforming lenders will accept them. Lenders want to avoid “mattress money” and laundering money from criminal enterprises like drug profits. Undeposited cash or "mattress money" will not be acceptable with conforming programs, primarily because those funds may be borrowed (which increases debt) or unreported income (which is illegal). Applicants with substantial undeposited cash should deposit those funds immediately. Unfortunately, that applicant may have to wait at least three months before applying for a conforming residential loan. Note, however, that recent wages and salaries are often acceptable as sources for unseasoned funds.

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

Three men died on Christmas Eve and were met by St. Peter at the pearly gates.

“In honor of this holy season, ”St. Peter said, “you must each possess something that symbolizes Christmas to get into heaven.”

The first man fumbled through his pockets and pulled out a lighter. He flicked it on. “It represents a candle,” he said. “You may pass through the pearly gates,” St. Peter said and waved him in.

The second man reached into his pocket and pulled out a set of keys. He shook them and said, “They’re bells.” St. Peter said, “You too, may enter.”

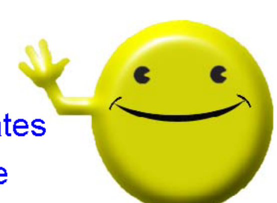
The third man started searching desperately through his pockets and finally pulled out a pair of women’s stockings. St. Peter looked at the man with a raised eyebrow and asked, “And just what do those symbolize?” The man replied, “These are Carol’s."

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

REFERRALS: THE SINCEREST FORM OF APPRECIATION

Dean Martin used to wrap up the end of The Dean Martin Comedy Hour, by encouraging his fans to “keep those cards and letters coming in. Jeanne (his wife) and I love those cards and letters.” Along similar lines I’ve included an insert along with the newsletter, a referral card, this month. Like Dean, I, too, love those cards and letters and would appreciate it “if you would keep them coming.”

NEXT ISSUE’S TOPIC: THE SHORT SALE



For those of you who receive the newsletter via email, the insert is simply a postcard that states “Referrals are the lifeblood of my business. Thanks for not keeping me a secret!” There are provisions for the name, address of the referral party and the best way to contact them either by phone or email and my cell: 760 726 4600. The reverse side displays Rod Haase, Associated Brokers, 300 Carlsbad Village Dr. #212, Carlsbad Village, CA 92008.