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mortgagestraightTalk.com

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

Fax: 760-639-0785

Rod@MortgageStraightTalk.com

30 Yr. Fixed Conform. & Jumbo	5.125 & 8.00%
5/1 ARM Conform. & Jumbo	5.50 & 7.00%
Prime Rate	4.00%
MTA Index	2.256%
COFI Index	2.769%
12 Month LIBOR	3.174

Morty's Bench Marks - 11/28/2008

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

CURRENT EVENTS

11/3-11/7 Sales of new cars and trucks in the U.S. plummeted in October to the worst levels in 25 years. GM's sales were off 45% from a year ago, Ford's down % and Chrysler's, 35%. A survey of the National Association of Business Economists released Monday shows that the vast majority of them (90%) believe the economy has fallen into a recession that will continue throughout all of 2009. Oil prices rose above $70 a barrel Tuesday, propelled by a slipping dollar, a stronger equities market and OPEC production cuts. Stocks surged Tuesday in anticipation of rate cuts from Europe's central banks, with the Dow gaining 305 points. Wednesday, two jobs reports presaged the labor market's continuing decline. Both appeared to confirm that employers winnowed more than 240,000 jobs from their payrolls in October and raising the unemployment rate from 6.1% to 6.5%. Ambac Financial and MBIA Inc. lost at least a fifth of their market value on Wednesday after the two largest bond insurers reported third quarter losses of $2.43 billion and $806.5 million, respectively, from exposures to complex credit derivatives linked to the sagging housing market. The two grim news stories caused the market to retrace much of the previous day's gains and then some, closing down 486 points. Weak retail sales, falling oil prices and more woes for automakers added to fears of a prolonged recession triggered a 443-point drop in the stock market to record the worst two day point drop, ever. Friday, the Bank of England, the European Central Bank and a few other countries central banks all lowered interest rates. The news helped the market to a gain of 248 points.

11/10-11/14 Monday brought another spate of dire corporate news, including AIG's huge restructuring, Circuit City's bankruptcy and more weakness for the automakers. The market edged downward 73 points. Tuesday followed Monday's lackluster performance with another decline—176 points. Asian and European markets had also tumbled earlier the day about 3-4% on fears of a global economic slowdown. Stocks fell (411 points) Wednesday, for the third session in a row. The sell-off gained momentum after Treasury Secretary Henry Paulson said that the government would no longer use the $700 billion bailout fund to buy illiquid assets from banks because the Troubled Asset Relief Program was taking too long to implement and that direct investments in financial institutions was a better way to restore confidence and ease credit conditions. Thursday, stocks staged a 553-point rebound as investors thought that after 3 straight days of declines that the market was "oversold" enough to venture back in. stocks tumbled 337 points, Friday, as the worst retail sales on record gave investors a reason to bail after the previous session's massive rally.

11/17-11/21 The news of Citigroup pruning 50,000 jobs from its payroll and the plight of the Big Three automalers caused the Dow to retreat 223 points to kick off the week's economic fortunes. The Dow perked up Tuesday after Treasury Secretary Henry Paulson, Fed Chairman Ben Bernanke and FDIC Chairman Sheila Bair told a House committee that despite the recent criticism, the bailout has helped stabilize financial markets. The Dow ended up 151.

The Dow plunged below 8,000, Wednesday, as investors remained apprehensive about the fate of the nation's auto industry. The Labor Department's Consumer Price Index, a key inflation reading, fell 1% in October. Separately, the Commerce Department reported record declines in both housing starts and building permits, darkening the outlook for new home construction. Housing starts dropped to an annual rate of 791,000 in October, the lowest level on record. The pair of dour economic reports added to the already gloomy sentiment, pushing the Dow down 427 points to its worst close since March, 2003. Wall Street seesawed Thursday before plunging 445 points, as investors eyed stocks at 5-1/2 year lows as a spike in jobless claims adds to fears of a prolonged recession. After Thursday's sell-off the Dow has been dancing above and below the unchanged line in a comparatively narrow range.

But news of Obama's choice of New York Federal Reserve Bank President Timothy Geithner for Treasury Secretary spurred the market to close above 8,000 and end up 494 points for the day.

11/24-11/28 Monday's announcement of a government rescue of Citigroup and Obama's pick for his economic team propelled stocks upward more than 396 points. The Commerce Dept. reported Tuesday that Gross Domestic Product declined 0.5% in Q3, its worst quarterly decline in seven years. This, along with the government's new proposed $800 billion lending plan underscored that perhaps things are actually as dire as feared and dampened the market's enthusiasm while still managing a modest gain. Stocks surged again Wednesday, with the Dow industrials posting a 247 point gain after President-elect Barack Obama's naming former Fed Chairman Paul Volcker to head his economic advisory board. The surge occurred despite more dour government reports. October sales of new homes dropped to an 18 year annual rate low while other government reports showed that consumer spending had slumped 1%, the biggest decline since September 2001. The markets were closed Thursday. Even with the shortened trading session, Friday, the Dow managed to post its 5th straight gain with an increase of 102 points.

RATE SUMMARY: Mortgage rates fell sharply on 11/25 after the Bush administration announced it would pump another $800 billion into credit markets to free up frozen consumer and mortgage lending. Overnight the impact was an immediate ½ percent drop for a 30-yr. fixed and a full 1 percent over the course of the month. The 15 yr. did almost as well, down .75%. The ARMs fared less well, but still improved by an 1/8th. Again, Agency Jumbos improved by a ½ percent. **NOTE:** Even thought the Agency Jumbo programs expire on 12/31, most lenders require that they must fund no later than 12/15. For the month, the true jumbos or non-conforming loans, those above $697,500 or $729,500 (depending on your county) fared the worst). While 30-yr. pricing was .25% better, 15 yr. money was 5/8th worse, as were the 3/1 jumbos. Government financing like FHAs & VAs improved by ½, except for the 30 yr. fixed jumbo which dropped an 1/8th. To see the actual rates for various programs go to:

http://www.mortgagestraighttalk.com and click the "**Rates**" pushbutton on the top menu bar.

Eight more lending casualties were racked up this month. This brings the running total to 307 mortgage lenders that have "imploded" since the beginning of 2007, meaning that they have halted major operations, filed for bankruptcy or become a "fire sale" acquisition of another lender.

THIS ISSUE'S TOPIC: DOWN PAYMENTS

There was a time not so very long ago when 100% financing was available and no down payment was required to buy a home. Alas, those days are gone except in a very few instances. Today, most buyers need to come in with a minimum of 3-5% down. What follows is a lengthy list of what are and aren't acceptable sources of down payment.

1. EARNEST MONEY DEPOSIT ON SALES CONTRACT

Obviously the earnest money deposit made on the sales contract can be credited toward the borrower's down payment, provided that it can be verified that the funds have cleared the borrower's account. A current bank statement reflecting the debit into the account is acceptable. If the deposit is 2% or more of the sales price, a copy of the canceled check, front and back, is required prior to submission.

2. CHECKING AND SAVINGS ACCOUNTS

The borrowers can provide 3 months' current, original bank statements to verify funds in the bank. If you do not have original bank statements, a Verification of Deposit (VOD) will be required.

3. GIFTS OR GRANTS

Tax law allows gifts of several thousand dollars a year to be bestowed without tax consequences to either the giver or recipient. The gift exclusion amount is adjusted annually to reflect inflation. For 2007 it was $12,000 and remains the same for 2008. Not close to your family? Not a problem. The gift exclusion isn't limited to relatives. The monetary present can be from anyone, including a church, municipality, or non-profit organization. **Note:** (Several of the non-profit down payment assistance programs for homeowners that were backed by organizations like Nehemiah, Ameridream, et al. have been eliminated by the Housing and Economic Recovery Act of 2008. New legislation is being proposed to reinstate these programs for homebuyers. It remains to be seen as to whether these efforts will be successful). Nevertheless, the California Housing Finance Agency (CALHFA) still offers a 3% down payment assistance (DAP) program known as the CHDAP for conforming loans (up to $417,000) .

Cash Gifts or Grants (from Institutions)

With gifts, whether they be from relatives or grants from other sources, certain restrictions apply. If the applicant is using gift funds, the applicant is still required to have sufficient personal funds to cover a minimum portion of the down payment. Depending on the Loan-To-Value (LTV) there are differing down payment limitations:

A. 97% LTV.If the applicant will be providing a total down payment of only 3% of price, that entire 3% must come from the applicant's personal funds. Gift funds may be used for closing costs and reserves, but NOT for this minimum down payment.

B. 95% LTV.When the total down payment is 5%, the first 3% must come from the applicant's personal funds. The remaining 2%—as well as other closing costs and reserves—may be covered by gift funds.

C. 90% LTV. If the applicant will be providing at least 10% of down payment, the first 5% must come from the borrower's personal funds. The remaining 5% and more—as well as other closing costs and reserves—may be covered by gift funds.

D. 80% LTV. The full down payment can be gifted. Even with gifted funds, there are stipulations regarding what is required to be deemed acceptable:

· Gift letter. The gift letter must come from a qualified donor (relative) and must clearly state (1) the relationship between the borrower and donor and (2) that no repayment is expected.
· Or implied. Gifts or equity credits from the builder or seller are not acceptable gift funds.
· Donor source documentation. The donor must demonstrate that they have the funds to give as a gift. Copies of the donor's bank or asset statements for the accounts from which the gift funds will be drawn must be provided.
· Copy of gift check. The applicant must make a copy of the gift check provided by the donor.
· Verification of deposit. The applicant must verify that he or she has deposited the gift funds. A deposit slip indicating the date, account and amount should be sufficient.

4. SALE PROCEEDS

If the borrowers are selling their current residence the equity in the current property may be sufficient for all or a portion of the down payment. A copy of the final HUD-1 Settlement Statement, however, must be provided prior to closing on the new house.

5. BRIDGE LOANS

Bridge (or swing) loans, using the borrower's current residence as collateral, are acceptable, and there is no limitation on the term of the bridge loan. One stipulation is that the borrower must have the ability to carry the payment on the new home, the payment on other obligations, the payment on the current home, and the payment on the bridge loan.

6. RETIREMENT ACCOUNTS

Funds from individual retirement accounts (IRA/Keogh) and tax favored retirement savings accounts such as 401k accounts may be borrowed from for down payment purposes. For a 401k account to be utilized the borrower needs to be vested and the lender must be able to verify the account and the amount of the borrower's vesting.

If you're looking to buy your first home, let the Internal Revenue Service help. Tax laws allow you to use up to $10,000 in funds for the down payment if you've never owned a house. If you're married and you both are first-time buyers, you each can pull from your retirement accounts, meaning a potential $20,000 down payment. Even better is the IRS definition of first-time homebuyer. Technically you don't have to be purchasing your very first abode. You qualify under the tax rules as long as you (or your spouse did not own a principal residence at any time during the two years prior to the purchase of the new home.

7. GOVERNMENT BONDS

Government bonds are valued at their purchase price, unless the redemption value can be determined and verified. An actual receipt of funds will be required. Around $9 million worth of saving bonds are sitting around, ignored by their owners and not earning a penny of interest.

8. STOCKS

The value of the stocks, as was the case with bonds, will need to be verified via an actual receipt.

9. TRUST ACCOUNTS

Trust account funds can be used if the borrower has access to them and it is verifiable.

10. CASH-ON-HAND

Cash-on-hand (a.k.a. "mattress money") is disallowed as a source of funds for a down payment because the source of the funds may be from illicit activities or criminal enterprises.

11. TRADE EQUITY

The property seller may take a borrower's existing property in trade as part of the down payment, as long as the borrower has made a 5% cash down payment and his or her equity contribution is a true-value consideration. This is determined by subtracting the outstanding loan balance of the property that is being traded, plus any transfer costs, from the lesser of its appraised value or trade-in value (as agreed by both parties). A separate written appraisal for the property must be obtained, plus a search of land records to verify ownership and determine whether there are any existing liens.

Any item of value can be used for trade, including automobiles, motorcycles, jewelry, coin collections, stamp collections, etc. A separate written appraisal is required to establish the value, but full credit will be given toward the borrower's down payment.

12. RENT WITH OPTION TO PURCHASE

The portion of a rental payment that exceeds the market rent can be applied to the down payment if there is a valid rental/purchase agreement in effect.

13. SWEAT EQUITY

With Fannie Mae sweat equity is not acceptable. But with Freddie Mac it is, if the borrower provides a 5% cash investment from their own funds.

14. BORROWED FUNDS

Borrowed funds that are secured by an asset represent a return of equity. Because of this, they may be used. Assets that could be used as collateral include certificates of deposit, stocks, bonds, automobiles, real estate, and life insurance policies. It is necessary to verify the term of the loan and prove that the debt is secured.

Borrowed funds that are deemed unacceptable are signature loans, lines of credit on credit cards, and overdraft protection on checking accounts.

15. SALE OF ASSETS

Proceeds received from the sale of personal assets are acceptable with evidence from the borrower that he/she owned the asset, documentation to support the value of the asset, evidence of transfer of ownership (a copy of a bill of sale is acceptable, or a statement from the purchaser) and evidence of deposit into the borrower's account is required (deposit slip or bank statement).

By putting your discards up for bid on eBay and similar sites, it may well prove the dictum that "one man's trash is another's treasure".

SPECIAL OF THE MONTH: Maybe it's a Black Friday holiday sale thing, but one lender has a conforming 30 yr. fixed, today (11/28) at 5.125%. As they say on TV, "Hurry at these prices they won't last long."

FORECLOSURE UPDATE

Notices of default (NODs) fell a whopping 61.8 percent during September in California, largely due to new legislation that requires a few extra steps on the banks' parts prior to filing a NOD and NTS.

The new law, SB 1137, requires mortgage lenders to attempt to make contact with their borrowers, and then wait 30 days after satisfying specific due diligence requirements before initiating foreclosure proceedings.

Because of this, September's foreclosure activity has dropped 12 percent below August's numbers. Only 16,352 NODs were filed in September, down from 42,790 in August and 36.4% less than in the same period a year earlier. Similarly, Notice of Trustee Sales (NTSs), the final step in the foreclosure process prior to auction, also decreased 47.3 percent from August to just 19,116, but were still up 33.9% from September 2007.

Actual defaults and foreclosures remain near all-time highs and this new law just pushes the problem back a month or two. Such measures will simply delay the inevitable and cause a spike in foreclosure activity further down the line.

THE ECONOMY & THE HOUSING MARKET

Our present state of affairs parallels the emerging economies of the '90s that were beset by crises, Mexico's in 1994, panics in Thailand, Indonesia and Korea, the economies of Brazil and Russia imploding in 1998, followed by Argentina's in 2000. Their common weaknesses—most had huge current-account deficits (meaning, basically, that they spent far more than they made), and they typically financed these deficits by borrowing from abroad in ways that exposed them to the national equivalent of bank runs. Most of these countries also had poorly regulated banking systems plagued by excessive borrowing and reckless lending. Corporate governance was often weak, with cronyism in abundance.

Similarly our problem is deeper than a housing crisis. Many people mistakenly believe that what has ensued this past year was attributable to the sub-prime mortgage market. Not so. We have problems with credit-card debt, student-loan debt, auto loans, commercial real estate loans, home-equity loans, corporate debt and loans that financed leveraged buyouts. All of these forms of debt suffer from some or all of the same traits that first surfaced in the housing market: shoddy underwriting, securitization, negligence on the part of the credit-rating agencies and lax government oversight. The cause of the present fiasco wasn't due to our sub-prime mortgage markets—**it's that the management of our entire financial system has been sub-prime.**

CASE-SHILLER HOME PRICE INDICES CONTINUE DOWNWARD TREND THROUGH 2010

The data through August 2008 according to the Case-Shiller Home Price Index, the leading measure of U.S. home prices, shows continuing broad based declines across the United States. Locally, San Diego and Los Angeles have experienced declines of 32.8% and 30.9% from their respective peaks in Nov. 2005 and Sept. 2006. The peak of a median priced home in San Diego has dropped from $619,707 to $416,447 in SD and from $584,715 to $403,798. Current prognostications show home prices bottoming out in both cities in November 2010, some 43.4% and 45.1% below their earlier peak levels. The data suggests that home prices are fated to drop another 11-15%, locally, before they begin stabilizing.

Meanwhile, CNN reports that according to the National Association of Realtors (NAR) the numbers are even worse: three California markets recorded the steepest year-over-year declines in median prices: Riverside-San Bernardino, east of Los Angeles, where the median price plunged 39.4% to $227,200; Sacramento, down 36.8% to $212,000; and San Diego, down 36% to $377,300.

NEW CONFORMING LOAN LIMITS FOR 2009

The conforming loan limits for 2008 were $417,000. But last March, HUD & FHA temporarily expanded conforming limits to as high as $729,500 in certain high cost counties. The purpose was to enable homeowners to obtain affordable refinancing and to help stabilize the real estate markets. Locally, the limit was $697,500. These loans ranging from $417,001 to $729,500 (depending on the county) went by a variety of different names: conforming jumbos, agency jumbos, temporary jumbos. These temporary limits expire on 12/31/2008. Even so, lenders are insisting that the loans fund by the 10th or the 15th of this month.

As of 1/1/2009, the new conforming limits are as follows:

- **San Diego County - $546,250**
- **Los Angeles County - $625,500**
- **Orange County - $625,500**
- **Riverside County - $417,000**
- **San Bernadino County $417,000**

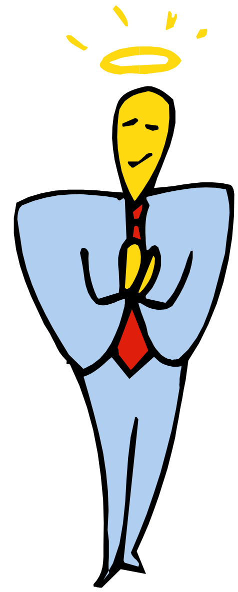
MORTY'S MAILBAG

Since the mailbag was empty this month, Morty is out shopping for new holiday greeting cards.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to identified as "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is **Morty@MortgageStraightTalk.com**

MORTGAGE MIRTH

A defending attorney was cross examining a coroner. The attorney asked, "Before you signed the death certificate had you taken the man's pulse?"



"No," the coroner replied.

The attorney then asked, "Did you listen for a heart beat?"

The coroner said, "No."

"Did you check for breathing?" asked the attorney.

Again the coroner replied, "No."

The attorney asked, "So when you signed the death certificate you had not taken any steps to make sure the man was dead, had you?"

The coroner, now tired of the brow beating said, "Well, let me put it this way. The man's brain was sitting in a jar on my desk, but for all I know he could be out there practicing law somewhere."

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 FOR 2009