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mortgagestraightTalk.com

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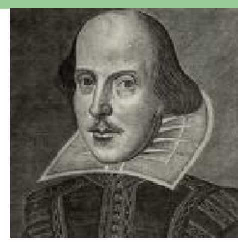
30 Yr. Fixed Conform. & Jumbo	**5.75 & 7.125%**
5/1 ARM Conform. & Jumbo	**4.875 & 5.875%**
Prime Rate	**5.25%**
MTA Index	**4.076%**
COFI Index	**3.97%**
Home Ownership Accelerator Index	**3.119%**

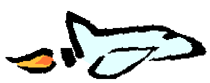
Morty's Bench Marks - 3/28/2008

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

The ides of March are come.
- William Shakespeare, *Julius Caesar*
(Caesar at III, i)



[Because of significant developments in the financial markets this month and space considerations, the topic that was originally scheduled "AND NOW FOR SOMETHING COMPLETELY DIFFERENT...MY 15 MINUTES OF FAME", will appear next month].

CURRENT EVENTS

__3/5__ Remember when a dollar was worth a dollar? Nine years ago it was worth 1.16 Euros? Today, it's worth less than 2/3rd of a Euro. The dollar hit a new low of 1.53 versus the Euro. Oil hit an all-time high of $104. The "soap opera" that is Ambac Financial Group, the troubled mortgage insurer, aired its latest installment, today. First there were rumors of a buyout, then a bail-out, and when the market found out that this was not what it was cracked up to be, trading in its stock was halted for two hours. When trading resumed its stock fell 19% after it announced that it would discontinue writing insurance on all mortgage-backed securities. And this was just a week after Standard & Poors had restored the AAA rating of the troubled bond insurer (which was just before it was disclosed that the proposed $1.5 billion bail-out by several banks had hit yet another snag).

__3/6__ For the past few weeks the market seems to be operating as if on a tape delay, the bad news comes in...and a day or two later, it reacts. Today, it reacted to the Ambac debacle, oil's spiking price, and the dollar's new lows and closed down 214 points. Ordinarily, an off day in the stock market may make for a good day in the bond market, but reports from the Mortgage Bankers Association could hardly be called encouraging when it came out that roughly 900,000 homes were in foreclosure (an all-time high) and that another 5.82% were delinquent, when added together it revealed that nearly 8% of all homeowners with a mortgage were not making payments in the fourth quarter of '07. Overnight, across the board, conforming mortgage rates shot up between a one-quarter to one-half percent as investors required increased premiums for buying mortgage backed securities.

Non-conforming fixed rates (above $417,000) which had been edging upward, jumped with some lenders while others dropped their jumbo (ARMs) altogether as hedge funds and banks sought to "deleverage".

HUD and FHA released their new temporary conforming limits for various counties: **San Diego, $697,500; Orange,$729,750; Los Angeles,$729,750; Riverside,$500,000; Imperial, $325,000;San Bernardino, $500,000.**

Unfortunately, these programs are not the salvation that many borrowers had hoped for. The limits are: only 1 unit properties, no duplexes, triplexes, etc. and only apply to mortgages originated from July 1, 2007 through December 31, 2008. Said programs do not allow borrowers to consolidate a 1st and a 2nd into one loan at a lower rate as many borrowers had hoped.

They do permit a borrower to do a straight rate and term refinance up to an LTV of 75% and then have the existing 2nd subordinate to the new 1st. No cash out is allowed.

3/7 Friday, it was more of the same. The only difference was that there was more bad news in that the economy lost 63,000 jobs, the biggest decline since 2003. The unemployment rate inched down 1/10th of 1 percent but only because the labor force shrank, which was not good news.

Various news services claimed that "High Cost Mortgages Just Got Cheaper" because FHA raised its conforming limits, the day before, but this allegation proved wildly inaccurate because two days earlier, Thornburg Mortgage Inc., the second largest independent mortgage lender, after CountryWide, and Carlyle Capital, one of the country's largest private equity firms, failed to meet their margin calls of $670 and $610 million, respectively. As a consequence they were forced to sell the home loans that they held in their portfolios and the cascade of forced selling that hit the market pushed mortgage bond prices significantly lower causing rates to worsen dramatically. The Dow closed off 146 points for the day and down 372 points for the week (its lowest level in 18 months).

With home prices falling and foreclosures mounting, investors have become increasingly averse to purchasing mortgage-backed securities, even those from Government Sponsored Enterprises (GSEs) like Fannie Mae and Freddie Mac. Understandably, banks are reluctant to lend because they have few if any investors to buy these loans and partly because of balance sheet constraints. The credit markets have, again, become impacted, not so much because of liquidity, but due to issues of solvency and a lack of confidence. To ease the situation and restore confidence among investors, the Fed announced that it would inject $200 billion into the system this month via the Term Auctions. This allows banks in need of short-term funding to borrow money for 28 days rather than overnight and pledge their prime mortgage paper as collateral to obtain a lower interest rate than what these banks would normally get from the Fed at the discount window.

3/11 Although the Fed's plan to loan $200 billion to banks and lenders as a means of loosening up tight credit markets was announced on Friday, it seemed to take a 4 days for this to register with investors as it was credited as the reason for the market having its best day in 5½ years--up 416 points—and in spite of oil topping $109. On the other hand, many would agree that the market was oversold and the Fed's action sparked a rally which was spurred further by stock traders covering their shorts from the week before. Still, one good day, does not a market make and pumping more liquidity into the market isn't going to help matters. It will just accelerate the dollar's depreciation, fuel inflation and ultimately prove counterproductive.

3/12 Freddie Mac's CEO, speaking at a conference, said that the housing market is the worst in about a century, according to reports. Oil set a new high of $109.92 per barrel and the dollar hit a new low of 1.55 versus the Euro.

3/14 "Stocks Tumble on Bear Scare" read one headline today. What it was referring to was the news that the battered Wall Street brokerage investment bank, Bear Stearns, had nearly collapsed due to its central role in a multi-trillion dollar web of interconnecting derivative contracts. To stave-off insolvency, the Fed and J.P. Morgan Chase agreed to step in with short-term emergency funding. The Fed's intervention suggests that were Bear Stearns to fail, it might prove disastrous to the increasingly fragile financial markets. Initially, the market fell 300 points when it heard of 'Bears' predicament but managed to rebound and close down only 194 for the day. The Dollar plumbed a new low of 1.56 to the Euro. [Over the weekend, it was deemed more provident, if not prudent, for Bear Sterns to be acquired outright by Chase].

3/18 The Futures Market expected the Fed to lower the Fed Funds Rate by .75% to 2.25% and given the rate cut, a rise in the Dow was expected, but the magnitude of the rise was not—UP 420 POINTS! The central bank also lowered the Fed Discount rate by 75 basis points to 2.5%. It was the second cut to the discount rate in three days.

Lest some of you think this means mortgages rates are necessarily cheaper allow me to reiterate that mortgage interest rates are directly tied to mortgage-backed securities, not the 10-year Treasury as many think. The 10-year Treasury is a debt owed by the US Government, not a homeowner, and does not directly dictate daily pricing. There is a tendency for mortgage rates to correlate with the 10-year bond, but not always. Nor are mortgage rates tied to the Fed Funds Rate or the Discount Rate. Of all the various government rates only the Prime Rate has a direct bearing on mortgage rates and that is limited to Home Equity Lines of Credit (HELOCs). Conventional mortgages rates are long-term and are tied to various indices like the CMT, the MTA, the LIBOR, the CODI, the COFI, and the COSI, but none of these are a function of the !0-year Treasury yield, the Fed Funds or Discount Rates.

3/19 "The Lord giveth and the Lord taketh away" might have been the maxim for the day as the market saw roughly 75% of its gains from the previous day erased. The market closed down 293 points for the session. It can't seem to sustain a rally for even two days, not a good sign.

3/20 On Wednesday, the big news from the Office of Federal Housing Enterprise Oversight (OFHEO) was that they lifted capital restrictions on Fannie Mae and Freddie Mac allowing them to pump $200 Billion into the mortgage market by way of buying Mortgage Bonds. The anticipated increase in demand was good news for Bonds and home loan rates, which immediately improved. The Dow bounded up 261 points, despite an increase in unemployment claims. The same day, the director of the Economic Cycle Research Institute declared that its leading index for non-financial services, a sector of the economy that accounts for 62% of jobs, turned negative, formally indicating that a recession had begun.

3/24 The National Association of Realtors (NAR) reported that February **sales of existing homes** rose 2.9% above the previous month's numbers but attributed it to an **8.7% decline** in the **median price of single-family homes since February 2007,** the most in four decades of record keeping. The year-over-year decline in February's home sales was a 23.8%. Nationwide, home prices have fallen 15% from their peak in July 2006. Locally, prices in formerly hot markets like **San Diego County and L.A. Counties experienced drops of 16.8 and 16.5%,** respectively, according to the Case-Shiller Index.

The NAR estimated that there were 4 million homes available for sale, approximately a 9.6-month supply, down slightly from the 10.2-month supply in December. **New home sales** fell to a 13-year low in February, the government reported. In spite of the statistics, the stock market seemed unfazed and rallied 187 points.

3/27 The stock market has seen triple digit gains or losses in 9 of the last 12 trading sessions. Its volatility bespeaks uncertainty—and there is nothing the market hates more. Much of the uncertainty stems from its current inability to determine the collateral values in the housing market. As prices decline, it's difficult to value the real estate, as foreclosures and defaults mount, it's difficult to ascribe a value to the mortgages underpinned by the real estate and with so many variables in play, it's daunting to determine the worth of mortgage-backed securities and bonds. Uncertainty prevailed this day and it fell 120-points.

3/28 Another anemic day on Wall St.—down 86 points.

Thirteen more lending casualties were racked up this month, most notably Bear Sterns and CitiMortgage's Home Equity Division. This brings the running total to 245 major 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.

UP IN ARMS OR IS IT DOWN ON ARMS?

In the past year, the reputation of Adjustable Rate Mortgages (ARMs) has taken a beating because these loans have had higher default and loan delinquency rates so investors continue to demand a premium. Consumers switched to fixed rates because adjustables were starting at virtually the same rate as fixed rates. This lack of spread happened because of two reasons. First, the Federal Reserve Board increased short-term rates upon which adjustables are based while long-term rates stayed relatively low. Second, the collapse of the secondary market for mortgages caused rates on adjustables to rise further than fixed rates, especially on larger "jumbo" mortgages. But these circumstances may be changing. The Fed has now lowered short-term rates and Bernanke has stated that the Fed is prepared to continue these actions to avoid a recession. [I believe it's too late to be avoided, at this pointt]. What happened, you ask? Long-term rates rose because the markets were afraid the Fed would lower rates so far it would increase the risk of inflation. So, if the Fed continues to lower short-term rates and long-term rates do not fall, the spread will widen. And that will favor adjustables. There is still the matter of the secondary market not favoring adjustables, but the government's action to allow Fannie Mae and Freddie Mae to purchase some jumbos could help restore confidence in the secondary markets along with tighter underwriting guidelines being applied.

SPECIAL(S) OF THE MONTH:
"CONFORMING JUMBOS" and NON-CONFORMING

As reported above, the new conforming limits in San Diego County have been raised to $697,500 and $729,750 in L.A. **These loans are going by different names: conforming jumbos, agency jumbos or temporary jumbos.** The real value of the increased limits is that it allows purchases up to the new limits. Because the pricing on the 5/1, 7/1 & 10/1 programs is so stratospherically priced there are only two programs worth mentioning: the **30 yr. fixed@ 6.5%,** and the **15 yr. fixed @ 6.125%**. Above these amounts are the true non-conforming jumbos. The other special I'd like to call your attention to is for non-conforming or true jumbos (above 697,500 or 729,750 depending on the county). While Countrywide is currently charging **9½%** for its 30-year fixed rate non-conforming jumbo loans I have a 30 yr. fixed from a sub-prime lender at **6.8%.** They will go as high as 90% LTV on a full-doc program. It is one loan with no 2nd or mortgage insurance.

NEW LAWS

Two new laws that may or may not apply to you: 1) The U.S. House of Representatives and the Senate passed a bill which **extends the tax deductibility of mortgage insurance for the next three years** 2) The Mortgage Forgiveness Debt Relief Act no longer holds borrowers responsible for taxes owed on property selling for less than the amount owed on the outstanding loan balance. This applies to owner occupied property regardless of whether it was through a short sale, a foreclosure, or a deed in lieu of foreclosure, when secured by a mortgage debt. Nor, are lenders required to file Form 1099 (for Miscellaneous Taxable Income). The tax code used to require that lenders report to the IRS that if a property were sold for less than what was owed **that difference** was considered earned income and subject to the tax.

MORTY'S MAILBAG

Q. Please explain the purpose of a loan contingency removal and how it functions.

A. Ordinarily, a buyer needs a home loan to purchase real estate. The loan contingency period provides time for the buyer of real property to line up financing, i.e. get approved by a lender. If he (she or they) cannot qualify or get approved, the financing contingency is the buyer's escape clause. A typical financing contingency is 30 days. The default period in which to remove the loan contingency period for CAR (California Association of Realtors) is 17 days, unless otherwise stated. The reason for a specific number of days is that in contract law there is the notion that “Time is of the essence”. This means that by accepting an offer from a buyer the seller is removing his property from the market, thereby excluding it from consideration and receiving potentially better offers. Thus, it is the responsibility of the buyer to act in a diligent and timely manner to secure financing so as to not delay the execution of the contract which could be damaging to the interests of the seller. If the buyer is unable obtain financing within the allotted time he is faced with one of three decisions: cancel the escrow, have his agent negotiate for an extension with regard to securing financing or waive the contingency and hope that he can find financing and close by the end of escrow. If he elects to proceed with the escrow and is unable to find a lender to approve his loan, his deposit is then forfeit. Occasionally, even professionals do not understand what a loan contingency is for. It was not too many months ago that I was dealing with a realtor for whom I already had the buyer pre-approved. You would think that she of all people would understand what a loan contingency is and how it functions since it was her responsibility to negotiate the time frame of this stipulation in the purchase contract. Nonetheless, though our client had been pre-approved for the purchase and I had furnished her with a pre-approval letter and a loan commitment letter from the lender she continued to importune me for an “approval” because as she put it she “was looking out for her client’s best interest.” Even though I iterated and re-iterated that our client was approved, it finally dawned on me that the reason she continued to ask for the approval was because she didn’t understand how a loan contingency functioned. So, I attempted to tactfully explain to her my understanding of a loan contingency and why I was unable to furnish her with anything more than the commitment letter she already had. Suddenly, she discovered that she “had everything that she needed.”

Her misunderstanding arose because she did not understand that **all pre-approvals are conditional approvals,** that is, they are subject to a satisfactory appraisal and the usual proof of income, verification of assets, employment, reserves, etc. Nor did she understand that from day one she had what she needed. A full-on approval is granted only when the underwriter has signed off on all the conditions; this is the point at which one goes to docs (signing). From the outset our borrower was “approved” in the sense of being able to have the loan contingency removed. Just as a borrower must be approved, similarly, the property be approved, that is, the subject property must appraise for at least the sales price (unless the buyer is willing to make up the difference) and to be found to have a clear chain of title.

To preclude confusion, the loan contingency should specifically describe the loan the buyer is seeking. In essence, the buyer is saying that if I get the loan I describe, my loan contingency will be considered met. The best way to insure this is to get a written copy of the loan approval from the lender before you remove your financing contingency. This approval should state the loan amount you are approved for along with the interest rate and the date by which the transaction must close in order for the interest rate to stay in effect. The buyer needs to make sure that his pre-approval letter matches these terms. If the buyer is already pre-approved for a loan, there is very little chance the transaction will fail to close because of loan approval. As previously mentioned, if the property fails to appraise at the purchase price, the borrower will need a larger loan or will have to make up for the shortfall. But, other than that, there are few conditions that prevent full loan approval from being given when the buyer has been pre-approved.

There are a few variations on loan contingencies that should be mentioned. The buyer may require a loan contingency that stays in effect until the close of escrow. It may not be in the best interest of the seller because his property is effectively off the market until the buyer cancels or closes escrow. But, it may be a necessary condition when buyers are scarce. Or, the buyer may require a loan appraisal contingency that states that the buyer is already pre-approved for a loan so there is very little chance the transaction will fail to close because of loan approval. As previously mentioned, if the property fails to appraise at the purchase price, the loan will not be approved. But, other than fraud, there are few conditions that prevent full loan approval from being given when the buyer has been pre-approved.

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 be labeled as such 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

After a dog spotted a "Help Wanted" sign, he trotted up to the window and then went inside. He looked at the receptionist and wagged his tail, then walked over to the sign, looked at it and whined a bit. Getting the idea, the receptionist got the office manager. The office manager looked at the dog and was surprised, to say the least. However, the dog looked determined, so she led him into the office. Inside, the dog jumped up on a chair and stared at the manager. The manager said "I can't hire you. The sign says you have to be able to type."

The dog jumped down, went to the typewriter and proceeded to type out a perfect letter. He took out the page and trotted over to the manager and gave it to him, then jumped back up on the chair. The manager was stunned, but then told the dog, "The sign also says you have to be good with a computer."

The dog jumped down again and went to the computer. The dog proceeded to enter and execute a perfect spreadsheet that worked flawlessly the first time.

By this time, the manager was totally dumb-founded! He looked at the dog and said, "I realize that you are a very intelligent dog and have some interesting abilities. However, I still can't give you the job."

The dog jumped down and went over to a copy of the sign and put his paw on the sentence about being an Equal Opportunity Employer. The manager said "Yes, but the sign also says that you have to be bilingual." The dog looked at that manager calmly and said, "Meow."

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

NEXT ISSUE'S TOPIC:

"AND NOW FOR SOMETHING COMPLETELY DIFFERENT….MY 15 MINUTES OF FAME"