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30 Yr. Fixed Conform. & Jumbo	6.25%
5/1 ARM Conform. & Jumbo	5.50% & 5.625%
Prime Rate	5.00%
MTA Index	3.29%
COFI Index	3.111%
Home Ownership Accelerator Index	2.459%

Morty's Bench Marks - 6/27/2008

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

Current Events

<u>6/2-3</u> Reports that Lehman Brothers, Merrill Lynch and Morgan Stanley, three of Wall Street's biggest banks, were being downgraded by Standard & Poor's. On the news, stocks tumbled 134-points. The silver lining to this cloud is that when stocks fall, bond prices rise and mortgage interest rates improve. Not always, but usually.

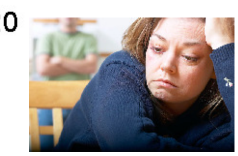
<u>6/5-6</u> The Mortgage Bankers Association's first quarter report showed that about 1.1 million homes were in foreclosure, the highest rate ever recorded. According to the trade group, the crisis is expected to worsen. Friday, Dow Jones Industrials plunged 395 points, its biggest one-day drop since February of 2007, more or less the inception of the sub-prime mortgage crisis. The year's biggest loss was triggered by a weak jobs report and a surge in crude oil prices. Unemployment figures rose from 5% in April to 5.5% in May, marking the biggest one-month surge in over 20 years. The jobs data and oil's record high close of $138 renewed recession fears.

<u>6/9-11</u> The Commerce Department reported Tuesday that the trade deficit, the gap between what the nation imports and what it sells abroad, rose by 7.8 percent, to $60.9 billion, the highest in 13 months. The growing deficit was driven by a $4.3 billion increase in crude oil imports. A bleak view of the economy from the Federal Reserve and another $5 bump in oil prices contributed to another 200+ point drop on Wall St.

<u>6/12-13</u> Retail sales rose 1% in May, most likely due to the government's economic stimulus plan and double what economists were expecting. The dollar rose versus the euro and yen. The Consumer Price Index (CPI) rose 4.2% on an annualized basis for the 12 months ending in May. Evincing concern, Fed Chairman Ben Bernanke signaled that the Fed's rate-cutting campaign, initiated last September to shore up economic growth, was over because of growing concerns about inflation. Currency markets roared their approval, sending the dollar, which has been in steep decline since 2002, higher against the euro. The Dow Jones Industrials added 165 points on the strength of Bernanke's comments. Meanwhile the nation's housing market was dealt another blow after a report showed that approximately 73,000 families lost their homes to bank repossessions in May a 48% jump from May of 2007.

6/16-18 Though oil prices abated for the third day in a row, the relief was over-shadowed by reports of slower growth and higher wholesale prices. The number of single-family home starts fell to a 17-year low. The dollar dropped and stocks took a triple digit header. A survey by Duke University of more than 1,000 CFOs found that 71% said the U.S. economy will not begin to rebound until 2009 and 54% pushed that date back until next summer. Morgan Stanley, the nation's second largest investment bank, reported a 57% decline in profits from continuing operations last quarter. As interest rates surged, mortgage refinance applications hit a 2008 low. The Dow dropped another 131 points.

<u>6/19-20</u> Volume was heavy Friday because of the "quadruple witching" options expiration, a quarterly event in which stock futures and options and stock index futures and options all expire simultaneously. Moody's joined Standard & Poors and Fitch in cutting its credit ratings for the two mortgage bond insurers, MBIA and Ambac Financial. The downgrades added to ongoing worries about the financial sector. The credit market crisis and spiking oil prices dragged equities down another 220 points, a 3 month low.



6/24-25 The Conference Board's Consumer Confidence Index, a key measure of the economy's health, fell to 50.4 from a revised 58.1 in May, the fifth worst reading ever. The index signaled a further slowdown in the U.S. economy which has been a major concern for the Federal Reserve. The Case-Shiller Home Price Index fell to a record low of 15.3% on a year-over-year basis, and was down 1.4% from March. As expected the Federal Open Market Committee (FOMC) left the Fed Funds Rate, its key short-term rate, unchanged at 2%.



6/26-7 Oil advanced to a $140 a barrel for the first time ever, Thursday. Because oil's price is denominated in dollars, as it declines, producers and traders demand more dollars to reflect its diminishing value. General Motors stock lost 70% of its value in the past 12 months and is at its lowest level in more than 33 years. Many U.S. banks and S & Ls are in worse shape (IndyMac Bank and Downey S & L have seen their share prices plummet by 97% in the past year). The market sell-off of 358 points pushed the averages into bear market territory of 20% below last October's highs and its lowest level in 21 months. Friday, oil crested briefly at $143, causing another down day on Wall St. with the DJIA dropping another 106 points.

6/30 Wachovia Bank (WB), one of the largest originators of Option ARM loans terminated its Pick-A-Pay loan programs, today. (See Teaser Rate Loans—The Next Financial Crisis (in this newsletter). The official release states: WB will no longer offer products that result in negative amortization. WB is waiving all fees associated with Pick-A-Payment loans effective immediately. WB is waiving all prepayment penalties associated with its Pick-A-Payment mortgage to allow customers complete flexibility in their home financing decisions.

Two more lending casualties were racked up this month. This brings the running total to 264 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: WHAT MAKES A GOOD MORTGAGE BROKER GOOD

Years ago, I wrote a piece entitled "Confessions of a Mortgage Broker or What Most of You Don't Know About $ and Mortgages" which some of you may have read, if not and you're interested, it's available at
http://www.mortgagestraighttalk.com/pages/tpnewpage.htm
In it, I opined that for so many reasons it was a waste of time for a borrower to shop for around for an interest rate. Instead, I said that it paid to shop for a mortgage broker and employ them to do it for you. The piece begged the question, but never addressed "How does one identify a good broker?" I didn't answer the question initially because it seemed so self-serving but after lo these many years, I've decided to it would be a worthwhile topic for the newsletter. So here goes:

THEY ARE KNOWLEDGEABLE AND EXPERIENCED

Mortgage transactions are complicated and there is much to learn. Yet, *not all states require mortgage brokers to be licensed, although California certainly does.* There are two licensing options available to those wishing to operate as a loan officer: **Mortgage brokers are licensed and operate under the jurisdiction of the Department of Real Estate,** whereas a **California Finance Lender (CFL) is under the aegis of the Department of Corporations**. Mortgage brokers under the DRE are required to pass the same exam as real estate sales agents. But, just because someone is licensed, it doesn't make them good. Licensed mortgage brokers have a fiduciary relationship to their clients involving a high degree of trust, fidelity, integrity and confidence.

A loan officer working under a California Finance Lender's license may be doing many of the same things that a mortgage broker or banker does but **is not required to be licensed**. The courts have held that CFL brokers do not have a fiduciary duty to their borrowers.

A great many loan officers get their training on-the-job and/or are new to the profession. So it should come as no surprise that there is a significant percentage out there that know very little or whom are out of touch with market events. I've been in office meetings in which the loan officers didn't know what the Prime Rate was currently fixed at. I've also witnessed cases of loan agents not knowing how to process a loan, read a rate sheet or understand what causes mortgage rates to move. I have seen other instances of mortgage brokers possessing astonishing little knowledge of lenders programs, guidelines, and rates, but succeeded because they were good marketers or gave "good phone". These individuals relied almost wholly on the lenders' reps to put their deals together and their processors to keep them stuck together. Not surprisingly, their closings were full of surprises and erratic. Thus, *there are conceivably individuals working under a corporation's license out there doing loans that were flipping hamburgers last week.* To be on the safe side, ask the broker/loan officer to summarize his/her work experience over the past 10 years.

THEY SPECIALIZE

Just as there are good realtors and bad realtors, there are mortgage brokers and there are…mortgage brokers. It is rare that you will find a good real estate broker that is also a good mortgage broker—there's a world of difference between the two professions and *there is too much to stay on top of to serve both professions well.* Good mortgage brokers specialize—they don't try to wear two hats.

THEY PROVIDE A GOOD FIT.

In one respect good mortgage brokers are a little like custom tailors. Just as people come in different sizes and colors, their finances, goals, and personalities are similarly individualized. So, it's important that one's mortgage complements one's degree of risk avoidance and financial goals. In short, it needs to fit your comfort zone. For example, many people are uncomfortable with anything other than a 30-year fixed rate mortgage while some have no qualms about adjustable rate mortgages (ARMs), interest only (I/Os) loans and neg-ams. Bottom line, if it's not a good fit, it's not for you. Beware of brokers that try to "steer" you into a loan. It may be because it has a more favorable commission structure for the broker. A good broker should be able to explain the pros and cons of various types of loans and then be confident enough in his explanation and the client's ability to decide what's right for him/her/them. A good broker should have no trouble in explaining the following:

- What is the best type of mortgage for a particular borrower? and why?

- How much should the borrower put down?

- Should a borrower pay points or opt for a zero-point loan?

- Should a borrower raising cash do a "cash-out" refinance or take out a 2nd mortgage? Or a HELOC?

- Should a borrower putting less than 20 percent down go with private mortgage insurance, lender-paid insurance at a higher rate, or take a piggyback second mortgage?

- Will it pay the borrower to refinance?

- Should the borrower consolidate other debts in a refinance?

- Should the borrower use available cash to pay down debt, pay points, or make a larger down payment?

THEY ASK QUESTIONS AND—LISTEN

Good brokers ask a lot of questions for good reasons: how else are they to determine what you want or need? Remember brokers have a fiduciary responsibility to keep clients personal details confidential. Their interest in your financial affairs is purely professional. Believe me, after having viewed hundreds of credit reports there's nothing titillating about one more. But an attentive borrower can tell a lot about the broker from the thoroughness of their questions. A bad broker gives you an answer right off the bat. Bad brokers know what mortgage type you need and/or the answer to any other question that you may have, even without having learned anything about you, partly because they want to get your deal as quickly as possible and move on to the next one.

As previously mentioned, good brokers are also good listeners because every borrower brings to the table their unique collection of needs, wants, and limitations and there are very few deals don't have some twist, turn or kink to them.

THEY COMMUNICATE EFFECTIVELY WITH BORROWERS

A good broker knows that financing is an arcane science for a good many people. Mortgages can be complex instruments, particularly some of the concepts involving option ARM hybrids and 1st Lien Lines of Credit, but they are not beyond the comprehension of the average borrower, provided they are explained properly. If you don't understand what you are being told, it is probably because of the poor communication skills of the broker. Poor brokers all too frequently use mortgage acronyms of which borrowers have understandably little knowledge or comprehension. How these people can expect someone to buy something they don't understand is beyond me. I am continually amazed by borrowers asking me to explain something that they never understood from their previous broker or real estate agent. Don't let a broker assume you understand something when you don't. A broker who doesn't allow that finance is a complicated subject, combined with a borrower who is afraid of looking stupid, are likely to be in for some surprises down the road.

THEY ARE PROBLEM SOLVERS

A good broker should ask you the following question: "What is it that you are trying to accomplish with this loan?" Is it to minimize your mortgage payment, pay off your mortgage in less time, have access to cash reserves in the event of an unforeseen development, etc.? A good question to ask the broker is "Given, what you know about me what would you do if you were me?" Then listen to what they have to say. Ironically, most problem borrowers think they know more than good mortgage brokers. Good brokers are problem solvers and can surprise you with solutions that you may not have thought of or programs of which you may be unaware.

THEY ARE CONSCIENTIOUS

The majority of brokers use the same 2 or 3 lenders because it's easy. But good brokers shop for rates and programs as if they were the client. It's one of the reasons for borrowers to utilize their services. Brokers obtain their pricing off of wholesale rate sheets or pricing engines. Oft-times there are considerable differences between one lender's programs and guidelines and another's. Also, the broker must, at the same time, be mindful of which lender is apt to approve his client.

With respect to whether one should pay points or not, a good broker is apt to start out by saying, "Well, that depends…" It may be maddening to hear but the fact is that ***IT DOES DEPEND on how long you expect to live in a home or have that mortgage as to whether it's in your best interest to pay points or not.***

Accurate pricing depends on a 15-16 different parameters involving the borrower(s), the property, and the transaction. Without addressing these parameters, the quote you receive is meaningless. To receive an accurate quote a broker should ask the following questions:

1. Loan amount

2. Loan to value

3. Mid-FICO score (of all borrowers on the loan)

4. Occupancy (primary residence, 2nd home, investor property)

5. Type of property (SFR, PUD, Condo, unimproved property)

6. Documentation type (full, stated, SIVA, SISA, NINA, No Doc)

7. Type of mortgage desired (fixed, adjustable, Interest Only, option ARM)

8. Length of fixed rate (if an ARM) 1/1/, 3/1, 5/1, 7/1, 10/1, 15, 30 years

9. Term (15, 30 or 40 years)

10. Lock times (8, 12, 15, 30, 45, 60 or 75 days)

11. Cash out (applicable if it's a refi)

12. Prepays, if yes 1,2,3, or 5 yrs.

13. Wholesale or rebate pricing

14. Impounds

15. Buy downs

16. 2nds or PMI (if LTV > 80%)

All of the above figure into determining a mortgagor's interest rate. As you can see if one is to provide a relevant answer to "What's your rate?" it's not something easily spit out. It's a little like playing 3-dimensional chess.

But, bad brokers will do more than quote the best prices possible—they will sometimes quote prices even better than the best possible—with the intent of snagging a deal with an unrealistically low quote.

Note: To counteract this you can ask the broker to show you the rate sheets from the lenders he checked. This is not so that you can compare prices—that would require a lot of instruction—but simply to verify that the information is there.

If you tempt a broker to give you a low-ball quote over the phone by not answering his or her questions, you're apt to get what you deserve.

THEY IDENTIFY WITH THEIR CLIENTS

They will act in your best interest in dealing with the lender and third parties. They will ensure that the lender fees and third party fees on the Good Faith Estimate (GFE) are accurate. They will strive to obtain the best possible prices and contain third-party charges, such as title insurance and escrow fees. Bear in mind though, the GFE is an *estimate* of costs, it is not a to-the-penny accounting. But, as a rule of thumb, the GFE should not be off by more than 10%. Also, good brokers are aware of title companies with special rates for *refinances* or time frames, e.g., if the policy was issued within five years of the new policy's issue date. On *purchases*, discounts may be had from title companies in which they issue both the owner's and lender's policies.

THEY'RE HONEST TO A FAULT—TO YOUR BENEFIT, NOT THEIRS

The acid test of a good broker is whether the broker will tell a client that a contemplated refinance is not in his/her best interest. I've had a number of instances where I've been referred business and told the borrower(s) that it was not in their best interest to refinance at the current time. They were surprised by my candor because the other brokers seemed more concerned about the quick buck than the client's benefit—they all said the same thing—let's do it.

THEY OPERATE WITH TRANSPARENCY AND KEEP THEIR CLIENTS INFORMED

Failure to keep a borrower informed is one of the most frequent criticisms of brokers that I hear from borrowers, especially on purchase transactions where borrowers are faced with a firm closing date. Brokers often fail to let borrowers know that, while there is no news to report, everything is on track and proceeding apace. Arrange with the broker on how you would like to be updated as to both the type and frequency of communiqués.

Good brokers will furnish you with a Good Faith Estimate (GFE) within 3 days of taking your application. (It's also the law). A good broker will happily get you acopy of the rate-lock statement as soonas it has been received from the lender, if you ask. Bad brokers keep their borrowers in the dark because they are (take your pick) lazy, negligent, inept or predatory. My introduction to mortgage lending was via Conseco, a once prominent sub-prime lender. It was routine for them to charge 5 points on a deal plus sky-high rates. Women there were among the most successful loan agents because most borrowers couldn't imagine that the nice woman on the phone who sounded so sweet could be so rapacious as to charge them $23,000 to do a $319,000 loan. But then again she didn't put it quite that way she spun it so that "they were 'investing' just $23,000 of their equity to obtain this super low 9.8% rate".

GOOD BROKERS GET DOCUMENTS FROM THE LENDER PRIOR TO CLOSING

Obtaining all the documents from the lender provides the borrower with an opportunity to read them at their leisure and clarify any issues. This may be more useful to the borrower than having the broker at the closing. Ask the broker if you will have access to the final documents at least two days prior to closing. Short of a shortened escrow, this should not be a problem.

GOOD BROKERS ATTEND CLOSINGS WHEN NEEDED

Having a broker attend a closing may not always be feasible because the closing is too far away, and sometimes it isn't necessary because the borrower has been through the drill before. But if the borrower is a novice, having the broker available to help explain things is a major source of comfort. If it's important to you, ask the broker if he/she will attend the closing.

GOOD BROKERS HAVE A FOLLOWING

Good brokers are highly recommended and have their reputations to uphold. The broker who has a steady stream of referrals is much more likely to do the right thing than one who purchased your name and address from a leads broker. Mediocre brokers need to solicit constantly, whereas good brokers enjoy referrals from Realtors and satisfied previous customers. Obviously, it is not the case that good brokers never solicit, but the good ones don't need to buy leads from lead brokers like Lending Tree, e-loan, Quicken, or Price My Loan. As a general rule of thumb, it's better to be the picker than the "pickee". Naturally, I would appreciate any referrals that you might provide.

In sum, good brokers are smart, attentive, experienced, conscientious, professionals. They possess effective communication skills, have a good reputation and treat their clients the way they would like to be treated if they were the principal in a transaction.

TEASER RATE LOANS— THE NEXT FINANCIAL CRISIS

There is still a perception out there from pundits and those in the media that this housing meltdown was caused purely by sub-prime loans. It was not; it was merely the trigger. In May of 2007, as the sub-prime crisis began to unfold, I wrote about the likely emergence of a far greater threat to the stability of the financial markets than the one posed by the sub-prime fiasco—the teaser rate loans. Teaser rate loans are those with the phenomenally low start rates of 1 or 2%. They are known by a variety of names: Option adjustable rate mortgages (option ARMs), deferred interest loans or neg-ams. The looming implosion of these loans poses a much larger problem for the economy because they cut across all socio-economic boundaries and were primarily employed in the nation's most affluent cities/regions. They gained popularity during the peak of the real estate boom in 2004 when rapidly rising home values would have otherwise precluded many buyers from purchasing homes.

Originally, these loans were designed for self-employed people with fluctuating incomes. The loans, which were made to borrowers with A or Alt-A credit, allowed homeowners the option of making a minimum monthly payment, an interest only payment, or an amortized payment. Making the minimum payment (the case for a majority of borrowers) did not cover the interest on the principal, so the amount of unpaid interest (or deferred interest) was added to the loan balance (principal). When the accrued loan balance hit 110% to 125% (depending on the lender and loan program) of the original loan amount, the loan would "recast" such that the new loan balance would be paid off within the remaining years of the loan term in amortized payments,thereby eliminating the minimum and interest only payment "options". For hundreds of thousands of borrowers who opted to make only the minimum payments **A "RECAST" WILL CAUSE BORROWERS MINIMUM PAYMENTS TO MORE THAN DOUBLE AS THESE MORTGAGES RESET.** Most borrowers say they expected to be able to refinance or sell their homes before the loans recast. But, home prices fell and the ensuing credit crunch made refinancing impossible for all but a few.

About a million borrowers have option ARMs, but only a fraction have already fallen due. Experts foresee that the next wave of foreclosures will begin accelerating in April, 2009 from $5 billion to a peak of about $10 billion in January, 2010. Among the states expected to be worst-hit are California, Florida, Arizona and Nevada. Today, outstanding option ARM loans in the U.S. total about $500 billion, about 60% of which were sold to California homeowners. Option ARMs were especially popular in the state, where they were heavily marketed during the boom by such companies as Countrywide Financial, Downey Savings, IndyMac, Washington Mutual, and Wachovia Bank

ARE WE OR AREN'T WE…IN A RECESSION, THAT IS?

There's been much debate as to whether we're in a recession or something akin to it. It seems pretty evident to everyone but the economists. But the confusion has occurred because most pundits define a recession as two successive quarterly declines in gross domestic product (GDP), a measure of the nation's output. In defining a recession a better indicator is job loss. Much more accurate than successive declines in GDP is four straight months of job losses. Any trustworthy definition of recession needs to encompass the key elements of the downward recessionary spiral—output, employment, income and sales. A recession is a self-reinforcing downturn in economic activity, when a drop in spending leads to cutbacks in production and thus jobs, triggering a loss of income that spreads across the country and from industry to industry, hurting sales and in turn feeding back into a further drop in production—in effect a vicious cycle. To keep it simple, just look for the "Three P's"—a pronounced, pervasive and persistent downturn in the broad measures of those factors.

While GDP has yet to decline, we have already seen five straight months of payroll job losses that confirms our economy is in one. And, it bodes that either one or both of the recent, slightly positive GDP estimates will be revised down to negative readings by next year. Or, we will see a negative Gross Domestic Product (GDP) figure a quarter or two later this year.

Why all the palaver of recession versus economic slowdown? Because if this is indeed a recession [it is], policy makers would be remiss in assuming that this is an economic slowdown rather than a recession. The reason being is that if an economy is in recession, economic stimulus can be provided without much concern about inflation, since a recession *deflate*s an inflation. But if this were just an economic slowdown, such stimulus could set off an inflationary spiral.

SPECIAL OF THE MONTH: **FHA conforming (to $362,70) and high balance ($362,791 to $697,500) at 6.00% and 6.375%,** respectively. This program is not through a national lender. Consequently, it is only availablein San Diego County, Riverside County, andonly thesecities in San Bernardino County: Ontario, Fontana, Rancho Cucamongaand in Orange County only these cities: Santa Ana, Garden Grove, Anaheim and Irvine. **The Borrower or Co-Borrower must work or live in the County or Cities mentioned above!!!**

MORTY'S MAILBAG

Q. I've heard the term "hard assets" with respect to a loan application. Were they talking about coins or precious metals?

A. Neither. Hard assets are possessions that are not cash i.e., those that are illiquid or cannot be quickly converted into cash. This category includes cars, jewelry, electronics and real estate. Businesses are also often considered hard assets. For mortgage loan applications, hard assets do not need to be disclosed unless necessary to show positive net worth. This is especially the case with real estate or vehicles that have outstanding loans against them. Obviously, if the borrower has a mortgage loan reporting as a liability on his or her credit report, that debt should be offset by the value of the property. Otherwise, the borrower may generate a negative net worth.

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

Words of Wisdom: Never argue with an idiot…they will drag you down to their level and then beat you with experience.

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 MORTGAGE MELTDOWN REVISITED