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T.S. Eliot observed in his poem, The Wasteland, that "April is the cruelest month of all". But in the equity markets, for some peculiar reason, September and October are unparalleled for pain. It was just about a year ago that our capital markets were on the verge of collapse--far closer than the lay public realized. Black Tuesday which marked the onset of the 1929 Crash also occurred on the 29th day of October. Traditionally, September and October are tough months for the market. I suspect that after a 50% rise in the S & P, this year will prove no different.

THE MONTH IN REVIEW

9/1-9/4 Stocks fell sharply Monday as investors focused on a sharp sell off in China, which raised concerns that the U.S. market may have risen too far too fast. September is historically a bad month for stocks and market participants are bracing for a possible pullback following a surprisingly strong summer advance. The market ran true to form and kicked off September with a 185-point sell off. The Labor Department said non-farm productivity rose 6.6% annually in the second quarter, but output fell 1.5% in Q2. According to the National Association of Realtors, pending home sales rose 3.2% in July; the news marked the 6th straight increase. Job losses ebbed in August, according to the Labor Dept., but unemployment jumped to a 26-year high of 9.7% in July from 9/4% in June.

9/7-9/14 The markets were closed for Labor Day. One up, one down: as oil hit its biggest one-day gain in three weeks to close at $71.10 a barrel, the dollar slumped to its lowest level in nearly a year. Wednesday, in a modestly upbeat report the Federal Reserve declared that the economy is stabilizing. For the fourth consecutive session, all three major stock market indexes rose, pushing the Dow, the S & P, and the NASDAQ to equal 2008's highs. Gold topped $1000 for the third time this week as the dollar hit a 1-year low.

9/14-9/18 In a speech on Wall Street, President Obama said Monday that the bailouts are working and the economy is stabilizing, but regulatory reform is needed to prevent future collapses. The Commerce Department reported an increase

of 1.1% in August retail sales, nearly 3 times the 0.4% gain economists were expecting, suggesting that consumer sentiment is improving. The Labor Dept. reported that the Consumer Price Index declined 1.5% over the past 12 months, making goods and services more affordable. The Commerce Department said that construction of new homes and apartments rose 1.5% last month and applications for building permits, a forecaster of future activity, posted a 2.7 gain in August. Five states posted jobless rates above 12% in August, according to federal data released Friday. California was among the list coming in at 12.2%.

9/21-9/25 Stocks hit new 1-year highs, Tuesday. At the conclusion of its Open Market Committee meeting the Federal Reserve decided, Wednesday, to keep interest rates near zero. It stated that, although economic activity has 'picked up', ongoing job losses could dampen a recovery. The Fed said it would gradually phase out its $1.25 trillion program of purchasing mortgage backed securities over the next six months. The program is aimed at keeping mortgage rates low and propping up the housing market. The program purchases debt issued by Fannie Mae, Freddie Mac and other federal agencies that guarantee mortgages. Existing home sales unexpectedly fell last month for the first time since March, snapping a four-month streak of increases and signaling the housing recovery will be slow to gain speed.

<u>9/28-9/30</u> Stocks bounced back after last week's sell-off with the Dow gaining 124 points, Monday. The Consumer Conference Board said its consumer confidence index dropped in September, raising questions about the strength of the recovery. There was a 1.6% up-tick, nationally, in the Case-Shiller Home Price index for July, a further indication that housing markets may be stabilizing. For San Diego the gain was 2.5%. Weaker-than-expected reports on employment and manufacturing overshadowed a better-than-expected reading on GDP sent the Dow lower, mid-week.

RATE SUMMARY: In the past 30 days, mortgage rates dropped by an 1/8th of a percent for fixed rate loans (under $417,000). From $417,001 to $697,500 rates were a ¼ point better. Above $697,500 (jumbos) rates were unchanged. Government loan programs (FHA & VA) mimicked conforming loan amounts with a 1/8th percent improvement under $417,000 and improved by a ¼ point up to amounts of $697,500.

FOR CURRENT INTEREST RATES FOR 16 OF THE MOST POPULAR PROGRAMS GO TO: www.mortgagestraighttalk.com Then click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

Seven more lending casualties were racked up this month. This brings the running total to 365 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: FHAs

The Federal Housing Authority (FHA) provides mortgage insurance on loans made by FHA-approved lenders throughout the United States by protecting lenders against potential default. FHA IS NOT A LENDER; it insures loans that meet FHA lending standards which includes single family and multifamily homes as well as manufactured homes. Applicants pay for the insurance through monthly and lump sum mortgage insurance premium plans. Although Banks, Savings & Loans and other Private Lenders could utilize this insurance for their own holdings, most FHA loans are sold in the secondary market in GNMA (Government National Mortgage Association a.k.a. "Ginnie Mae") pools. It is the largest insurer of mortgages in the world, insuring over 34 million properties since its inception in 1934.

CREDIT

Borrowers are permitted only one FHA loan at a time. Under FHA, credit guidelines are very liberal, there is no minimum credit score for loan amounts of $417,000 and under. For loan amounts above $417,000, a minimum FICO score of 600 is required to obtain 95% financing and a 620 for 96.5% Loan To Value (LTV). Only 4 credit trade lines are necessary, one of which is housing and two of which could be utility accounts. One's credit report should also be free of Notice of Defaults (NODs), short sales and foreclosures for a period of 3 years. As of March 31, 2008 Fannie Mae sent out new guidelines regarding extending the period to 5 years for foreclosures. It remains to be seen whether FHA will adopt this policy, as well.

LOAN AMOUNTS

FHA has two loan tiers. The first tier or conforming loan amount is one that runs up to $417,000. Above that are what are termed conforming jumbos. These amounts vary by county. The max loan amount in San Diego is $697,500 ($729,750 in L.A.).

PROGRAMS

There are two primary types of properties eligible for FHA loans. They are often simply referred to by their section codes : 1) under section 203(b) of the National Housing Act, financing is provided for single family residences (SFRs), 1-4 units, and planned unit developments (PUDs) and 2) since they became a popular form of property ownership in the urban areas of the country, financing for condominiums is under section 234(c). Condos must be on an FHA approved condominium list and the project must have a minimum 51% owner occupancy rate.

TERMS

FHA loans can be fixed or adjustable rate mortgages (ARMs). Fixed rate loans can be 10, 15, 20, 25 or 30 year terms. ARM programs that are available are the 3/1, 5/1, 7/1, and 10/1, all with 30 year terms.

ADJUSTABLE RATE FHAs

Adjustable rate mortgages (ARMs) under the FHA have different caps: The 1,3, and 5 year ARMs have a maximum annual adjustment (cap) of 1% and a 5% lifetime cap over the start rate. The 7 and 10 year ARMs have a max. annual cap of 2% and a 6% life cap over the start rate.

MORTGAGE INSURANCE

There are two kinds with an FHA loan, one, is what is termed an Upfront Mortgage Insurance Premium (UMIP). The UMIP is a kind of user fee that one pays to obtain an FHA loan; it is similar to the "Funding Fee" that one pays to obtain a VA loan. It is equal to 1.75% of the loan amount and can be financed into the loan.

The other form of mortgage insurance is the one that most borrowers are familiar with—a Monthly Mortgage Insurance Premium (MMIP). FHA has a distinct advantage in this regard in that with a factor of .55% it is the cheapest mortgage insurance available, bar none. The MMIP is cancelled after 5 years or when loan balance reaches 78%, whichever is longer.

MAXIMUM DEBT TO INCOME RATIOS (DTIs)

Ideally, FHA would prefer that a borrower's housing expense (meaning payment of principal, interest, taxes & insurance) be no more than 31% of one's income and this ratio when consumer debt like credit cards and car payments) not exceed 43%. It is commonplace, though, with good FICO scores to see the back end ratio approach 50%, especially in cases where borrowers have received an approval via Fannie Mae's Desktop Originator (DO) engine.

CASH-OUT

An owner occupied property is also eligible for a cash-out refinance. The amount of cash out allowed on an FHA is contingent upon the value of the property and up to 95% of the acquisition cost may be borrowed. (With less than 12 months seasoning, cash-out is limited to 85% of LTV (lesser of acquisition price, or current appraised value). A temporary buy down is not allowed under the cash-out guidelines.

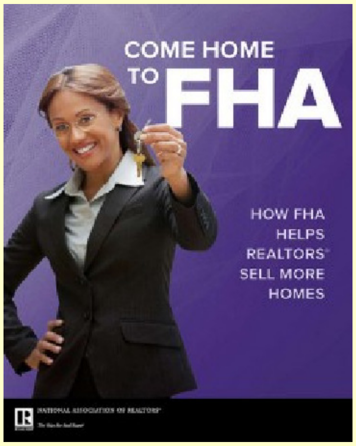
APPRAISALS

All FHA loans require a full appraisal. Loans above 95% LTV and over $417,000 require two full appraisals. must be performed by an FHA The lender or broker may appraisal. The subject property must meet FHA standards prior to loan funding. This will affect properties being sold "as is". Repairs noted on the appraisal must be complete before the closing. The appraiser must inspect the repairs and issue a clear inspection report prior to funding.

Appraisers inspect the property while appraising it. Among the items that they check are the utilities. They confirm that the electrical, gas, water and sewer systems are functional and that the heating, ventilations and air conditioning (HVAC) are in working order. They also inspect for health and safety code violations: site hazards, soil contamination, grading, wood destroying insects, structural deficiencies, and lead based paint hazards.

ADVANTAGES OF FHA FINANCING

During the housing boom in recent years, FHA's share of mortgages fell to only 7% of mortgage loans outstanding in 2007. With the recent debacle in the mortgage markets and lending guidelines becoming increasingly restrictive, FHA is suddenly the only choice for many borrowers. Many of the financing opportunities available to even prime borrowers have really been scaled back, through increased down payment requirements and [the requirement of] higher credit scores. FHA is playing an important role providing stability.



- Down payments as low as 3%
- Up to 6% seller contributions
- No minimum reserve requirement
- 100% gift funds allowed
- Citizenship is not required
- Geared toward, but not limited to first time homebuyers
- Cash out with no adjustments
- Fixed rate assumable loan
- Non-occupant co-borrowers allowed (usually needs to be a relative)
- Blended ratios with non-occupant co-borrowers allowed
- Less than perfect credit
- Great terms at a reasonable cost

DISADVANTAGES OF FHAs

- Maximum loan amounts vary by county
- Can't use buy downs for qualification purposes unlike with conventional financing
- Seller carry backs not allowed
- Non-owner occupied purchases (investment properties) are not allowed. Investment properties are only allowed on Streamlines or HUD Repos.

BANKRUPTCY & FHA LOANS

Bankruptcy must be documented:

- Must be released for a minimum of 2 years
- Must have re-established satisfactory new credit
- Must have a good reason for a BK beyond the borrower's control e.g. unemployment, strike, medical, etc. & be able to document

DOWN PAYMENT ASSISTANCE PROGRAMS (DAPs)

The "Housing and Economic Recovery Act of 2008" eliminated DAPs such as H.A.R.T, Nehemia Corp. of America, and Ameridream Inc. programs on 10/1/2008 because Federal data showed such loans foreclosed at triple the rate of loans made to borrowers funding their own down payments. The programs allowed the seller to fund 3% of the purchase price by contributing this amount to various agencies such as the ones listed above plus a small surcharge of $500 and the agency would in turn gift the 3% back to the buyer thereby allowing them to qualify for 100% loan to value under FHA guidelines. Down payments from other sources such as municipalities and other government agencies can still provide down payment assistance and remain unaffected by the new legislation.

FEES AND CLOSING COSTS

- All reasonable closing costs and prepaid may be paid by the borrower with the exception of the Tax Service Fee.
- An origination fee is limited to 1%

REMINDER: Mortgage Insurance (MI) is required for the first 5 years REGARDLESS OF LTV. After 5 years if the loan to Value is less than 78% of the original loan amount, MI can be cancelled.

SALES CONCESSIONS & FINANCING CONCESSIONS

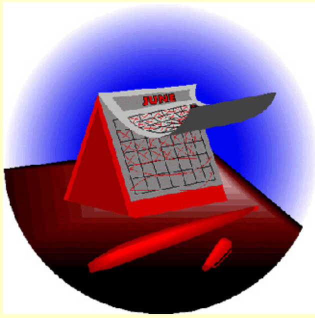
1. Examples of sale concessions (seller paid) subtracted dollar-for dollar from sales price:

- Condo/HOA Dues
- Decorating Allowance
- Moving Expenses
- Personal Property
- Excess Rent Credit

2. Examples of financing concessions (seller paid) not subtracted dollar for dollar from sale price but limited to six (6%) of sales price – based on sales price not mortgage amount:

- Discount Points
- Interest Rate Buy-downs
- Closing Costs
- Other payment supplements—mortgage interest and UFMIP

NOTE: It is important to close on an FHA transaction at the end of the month because under FHA guidelines the note holder has a right to collect interest from the date of the



payoff until the end of the month. So, it behooves one to payoff an existing FHA loan prior to the end of the month to avoid paying an additional 30 days interest.

REFINANCES OR STREAMLINES

The underwriting philosophy of the FHA refinance program is simple. Is the borrower reducing their current payment? If so, it stands to reason that, if the borrower can afford the current, higher payment it will be even easier for him (her) to afford the lower payment. To facilitate this, FHA has implemented what is known as a "Streamline Refinance". The sole purpose of an FHA Streamline Refinance is to REDUCE the monthly principal and interest payment on an existing HUD insured 1st mortgage only. The borrower only needs to provide the following information:

- 12 month payment history on current mortgage
- Uniform Residential Loan Application
- Current appraisal to document property value has not deteriorated. This may not be required if the loan amount is not being increased over the current loan amount.
- Verification of any funds needed to complete the closing and evidence of 1 month's PITI (principal/interest/taxes/insurance) in reserve.

PRINCIPAL BALANCE ONLY IS ELIGIBLE FOR AN INVESTMENT PROPERTY REFINANCE.

TERM

A borrower cannot refinance from a 15 year loan to a 30 year loan. The maximum term of a streamline is the lesser of 30 years or the remaining term plus 12 years.

INVESTMENT PROPERTY

A Streamline Refinance can be used to refinance an investment property or a loan that was assumed under the assumption program. Under an assumption, however, the borrower must have made at least 6 mortgage payments.

203(K)s

FHA's 203(k) loan program is the Department's primary program for the rehabilitation and repair of single family residences, condominiums and 1-4 unit dwellings. As such they have no up front mortgage insurance premium (UMIP).

FHA NUANCES/TRIVIA

What follows is a list of exceptions or limitations:

- Compensating factors for exceeding standard ratios
- Three months reserves or limited debts
- 10% down
- Less than 10% housing payment increase
- Outside income not counted in effective income
- Non-taxable income or temporary/seasonal income
- Shorter mortgage term by 5 years
- Smaller family—higher residual income
- Energy efficient dwelling—2% ratio increase up from 31/43% to 33/45%.
- 25% or more down payment—ratios not considered important

SPECIALS OF THE MONTH:

As of September 25th, the 5/1 conforming ARM @ 3.625% and the 5/1 Jumbo @ 3.60% have the lowest rates! The conforming 5/1 Interest Only ARM @ 3.75% has the lowest payment! (Conformings are loans under $417,000 and Jumbos are above $697,500).

MORTGAGE ODDS 'N' ENDS

FIRST TIME HOME BUYERS TAKE ADVANTAGE OF THE $8,000 TAX CREDIT

According to the IRS, more than 1.4 million Americans have already claimed the new tax credit for first-time home buyers. The credit which applies to sales of as of January 2009 is good for 10% of the price of a home, up to $8,000. It's available to anyone who has not owned a home for three consecutive years prior to purchase and to qualify for the credit buyers must be purchasing a primary residence, and couple can earn no more than $150,000 while individuals must make less than $75,000.

The credit has been an important stimulus tool because it's fully refundable, meaning that even if buyers owe no taxes whatsoever, they'll get an $8,000 check from the IRS. receive the credit buyers must close on their homes by November 30, 2009. At present, there are a number of bills Congress to extend the tax credit beyond the deadline.

$134 BILLION OF OPTION ARMS TO RECAST BY 2011

Fitch Ratings determined that $134 billion of Option ARM loans of US residential mortgage backed securities will recast in the next two years. The recast occurs when the loan reaches 110%-125% of the original mortgage or 60 months of age. The monthly payment obligation increases from the minimum amount to a fully amortizing principal and interest payment. The hike known as "payment shock" can often be twice as much or more than the previous minimum payment.

The 88% of the $189 billion of securitized option ARM loans have not yet recast. Of those, 94% are negatively amortizing because of borrowers opting to make minimum payments which do not fully cover the interest expense on the loans. As a result, the principal amount owed increases from month to month. Delinquencies—loans more than 90 days past due or in foreclosure rose from 16% to 37% this past year.

12% OF ELIGIBLE BORROWERS HELPED BY OBAMA PLAN

The Treasury Dept. reported in early September that servicers have placed 12% of eligible troubled borrows into trial loan modifications under President Obama's foreclosure prevention plan. Some 360,165 delinquent borrowers have been helped to date.

HOUSING SHORT SALE SPREAD ACROSS REAL ESTATE MARKET LEAVING FRUSTRATION IN THEIR WAKE

During the 2nd quarter of this year, 14% of all home sales were short sales. Even so, only one offer in three results in a completed short sale because of the lengthy wait times for lender approval. As one realtor put it, "The first offer, the buyer walks before they get a yes or a no. On the second offer they walk a good part of the time. The third offer is the charm because its been long enough at the lender that (the lender) knows they want to do this".

MORTY'S MAILBAG

There were no letters in the mailbag this month.

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 young man, hired by a supermarket, reported for his first day of work. The manager greeted him with a warm handshake and a smile, gave him a broom and said, "your first job will be to sweep out the store."

"But I'm a college graduate," the young man replied indignantly.

"Oh, I'm sorry. I didn't know that," said the manager. "Here, give me the broom, I'll show you how."

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

NEXT ISSUE'S TOPIC:

LETTERS OF EXPLANATION (LOEs)