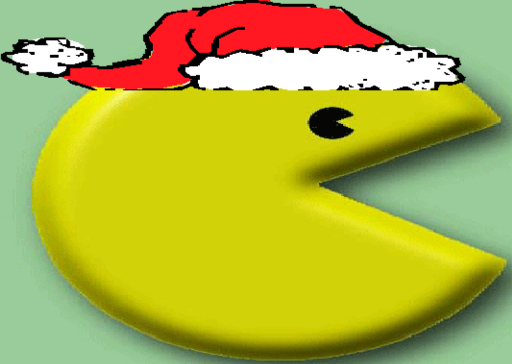

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THE MONTH IN REVIEW

11/02-11/06 The **Institute for Supply Management's (ISM)** manufacturing index rose for the third straight month, a 3 ½ year high, indicating a sustainable recovery. The number of signed sales contracts to buy homes rose in September for the eighth straight month, according to the **National Association of Realtors (NAR).** The **Senate** passed a bill to extend unemployment benefits for an additional 20 weeks. Thursday, retailers reported improved October sales were responsible for the stock market surging to triple digit gains. The economy continued to **shed jobs**, hitting a 26-year high of **10.2%**, Friday.

11/9-11/13 Stocks rallied Monday, with the **Dow Industrials** surging to a 13-month high, sparked by signs of a global recovery and growing investor optimism. The National Association of Realtors (NAR) says that **home prices rose** for the second straight quarter and the housing market is bottoming out. They show the median price of a home in the **San Diego-Carlsbad-San Marcos** market as being **$378,000** and having a decline of -3.3% since the third quarter of 2008. A survey by Move.com found that of **consumers** wanting to buy a home, 25.3% of them **want to purchase a foreclosure** and roughly 12% of homebuyers, or one out of eight, plan to purchase a home as an investment property. The **Federal Housing Administration's reserve fund** which covers losses on the mortgages the agency insures has **dropped to .53%** of its insurance guarantees, well below the 2% ratio mandated by Congress.

11/16-11/20 **Stocks** rallied over 136-points Monday, with the major indexes hitting fresh highs for the year, as investors focused on the weak U.S. dollar and signs of improvement in the retail sector. Addressing the Economic Club of New York, Federal Reserve chairman, **Ben Bernanke**, said that a weak recovery lay ahead. He explained that high unemployment and tight credit will limit economic growth for some time. The **DJIA** retreated Wednesday from 13 month highs, after a surprise drop in new home construction fueled concerns about the strength of the economic recovery. As concerns about the economic recovery resurfaced and the **U.S. dollar strengthened**, the market added another 93 points to the previous day's losses.

11/23-11/27 **Existing home sales** in October were up 10.1%, their highest level since February 2007. This, along with a rally in commodities, propelled the stock market to a 13-month high on Monday. **Home prices** rose 3.1% in the third quarter versus the second, but remained almost 9% lower versus a year ago, according to an S&P/Case-Shiller study of the 20 largest metropolitan areas. The number of first-time filers for unemployment insurance fell to 466,000, the lowest level in 14 months. The Commerce Department said **new home sales** jumped 6.2% in October, a sharp contrast to September's unexpected decline. **Stocks fell** 155 points as fears about the fallout from Dubai's woes rattled Wall Street in a half-day session following Thanksgiving. The total number of bankruptcies filed in the third quarter surged 33% in 2009 and is at the highest level since 2005.

11/30 Responding to loan modification complaints, the Obama administration announced new steps Monday to pressure banks to help homeowners, long-term. Lenders failing to meet their obligations could face penalties and sanctions.

November marks the first month in three years that there were **no institutional lending casualties**. Could it be that lenders have finally begun to stabilize? The total now stands at **373** 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.

RATE SUMMARY: Rates hit life-time lows!

Conventional Conforming & High Balance Conformings improved between an eighth to a quarter in rate. The Jumbos showed the least improvement--.1% to .15% in rate. The governments, such as FHA and VA Conformings as well as the VA High Balance, were between an 1/8th to 3/8th better as well.

FOR CURRENT INTEREST RATES FOR 10-15 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.

THIS ISSUE'S TOPIC: VERIFICATIONS

Verifications are about the only form of documentation that borrowers are not expected to furnish. Instead, they are provided by a third-party, like a bank, a landlord, employer or mortagee that affirms facts pertinent to the borrower(s). There are four principal verifications that one encounters in the mortgage process: VODs, VOEs, VOMs and VORs

VERIFICATIONS OF DEPOSIT (VODs)

A VOD is a document signed by the borrower's financial institution confirming the balance of a mortgage applicant's financial accounts. Its underlying purpose is to determine whether the borrower has sufficient funds to close a loan transaction. Altering this document has enabled borrowers to perpetrate fraud. To combat this, lenders are now, in addition, doing a verbal verification prior to docs. Because most major banks now centrally process their VODs, anything out of the ordinary will certainly cause a raised eyebrow, like a VOD that is hand carried by a borrower.

A common mistake that borrowers make is the assumption that it is okay to move funds around as long as the VOD funds equal the amount on the application. But to their dismay, they find that lenders are also apt to ask for the source of the funds, especially in instances when account increases exceed their monthly income.

VERIFICATIONS OF EMPLOYMENT (VOEs)

A VOE is a process used by banks and mortgage lenders in the United States to review the employment history of a borrower, to determine the borrower's job stability and to cross-reference income with what is stated on the Uniform Residential Loan Application (Form 1003). Lenders require complete VOEs declaring all positions held for the last two years of employment history.

Once a mortgage has been approved and the borrowers have signed their mortgage documents, a Verbal Verification of Employment is conducted with all current employers prior to funding the loan. This is done to ensure that the borrower has not stopped working since the application was submitted, which would influence the terms on which the loan was approved. In cases where a borrower has listed on the application multiple employers during the last two years, a Written Verification of Employment (Form 1005) is sent to all current and previous employers. This form is filled out by an authorized representative of the employer and includes dates of employment, positions held and a breakdown of compensation received. This information is compared to both the loan application and the income documentation, such as W2's and paycheck stubs, to ensure the information is correct.

VOE guidelines are different for self-employed borrowers, as a VOE should not be completed by the loan applicant. Self-employed borrowers are typically asked to either provide a current business license or, for borrowers who do not have a traditional business model, a letter from their Certified Public Accountant indicating that they have firsthand knowledge of their previous and continued employment as their tax preparer.

VERIFICATIONS OF MORTGAGE (VOMs)

Lenders require minimum of 12 months mortgage history on most loans over 12 months old or the maximum thereof, if less than 12 months. Cancelled checks can prove both payment history and interest in the property. A late mortgage payment as with any other credit late is apt to affect one's FICO, the more recent the "late", the greater the impact.

VERIFICATIONS OF RENT (VORs)

For borrowers with no mortgage history, a Verification of Rent (VOR) is an acceptable substitute.

A VOR form is mailed to the landlord to fill out. Among the items on a typical form are the length of tenancy, the monthly rental payment, and if there were any late rent payments. The VOR not only satisfies the lenders 12 months rent/mortgage requirement, but it can also be used as a secondary credit reference for borrowers with limited credit history.

An alternative to a VOR would be 12-24 months of cancelled checks showing that the tenant has paid rent in a timely fashion. If you don't have copies of your checks, you can request copies from your bank for a fairly nominal sum. If a borrower does not have a checking account to make rent payments, it is advisable to use a money order, not cash. With cash there is no way to truly document one's rent payments if need be. But a check or money order provides a "paper trail" that the tenant made rent payments and when.

$8,000 HOMEBUYERS TAX CREDIT EXTENDED AND EXPANDED

President Obama signed an extension and expansion of the first-time homebuyers tax credit on 11/06. The $8,000 credit was scheduled to lapse on Dec. 1 but will now be in effect through the end of June. Homebuyers must sign a contract before April 30 and close by June 30. The income limits were also raised: Single buyers can now earn up to $125,000 and still get the full credit while a married couple can earn $225,000.

The bill also made more homeowners eligible to claim the credit on their taxes. First-time buyers—those who have not owned a home in the past three years—still qualify for an $8,000 rebate. But now people who want to trade up can also qualify. Those who have owned and occupied a residence for at least five years out of the past eight can claim a $6,500 tax credit if they close on a purchase by the end of June.

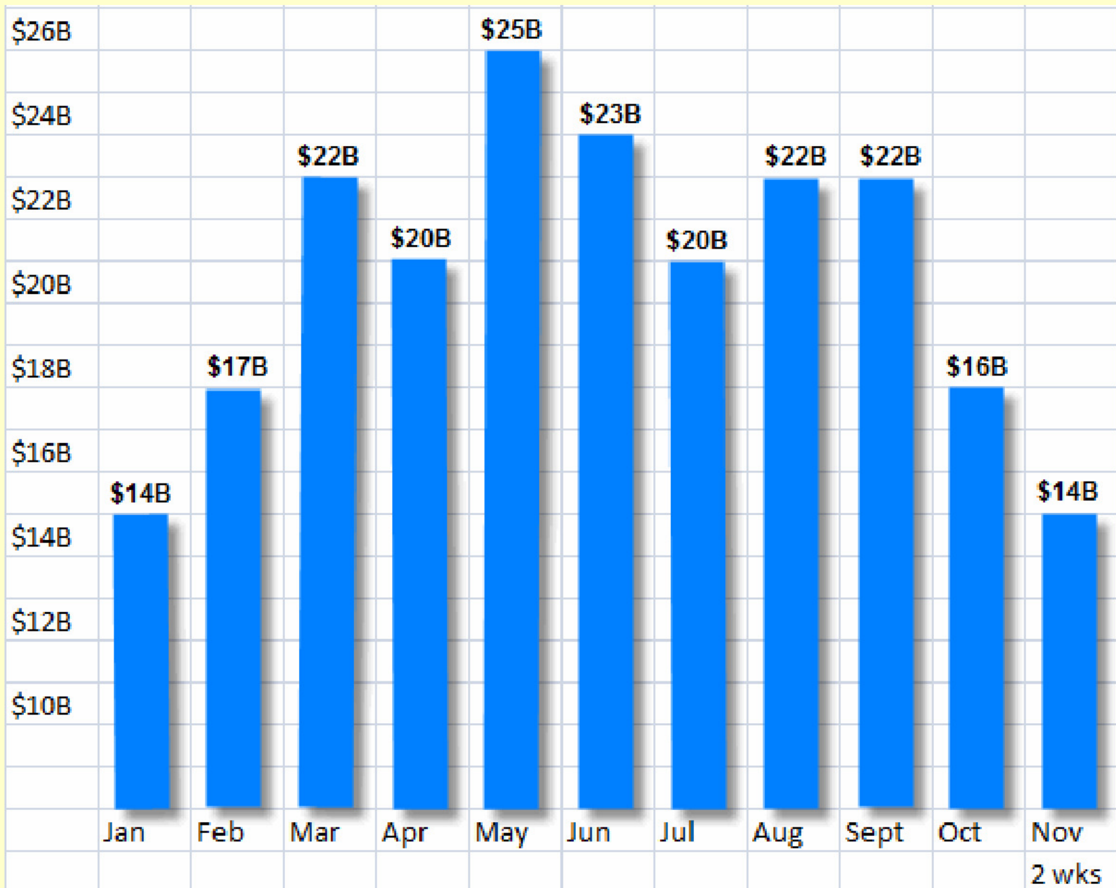
The new version of the tax credit has the potential to stimulate the housing market even more than the old version due to the fact that more people will qualify under the new rules. The industry thought the credit would provide a ripple effect, with sales to first timers triggering as many as three additional "move-up" sales. It did not have the chain reaction impact that was hoped for. Instead, many first-timers purchased foreclosures and short sales, whose sellers were unlikely to be move-up buyers. So, the tax credit helped prop up the low end of the market while providing negligible stimulus for the overall market. Expanding the benefit to existing homeowners should benefit a broader spectrum of buyers.

IF "A PICTURE IS WORTH A THOUSAND WORDS..."

As I reported in November, the Fed is winding down its purchase of Mortgage-Backed Securities (MBS) and due to complete its planned purchase of $1.25 trillion by the end of the first quarter of 2010 and it has purchased $950 billion year-to-date. Why is this important? Because home loan rates are based on MBS—so when the Fed agreed to be a big buyer, it supported the market, keeping MBS prices high and home loan rates artificially low.

As you can see from the chart below, the Federal Reserve's purchases of MBS peaked at an average of $25 Billion per week back in May. It stated that there will be no additional buying, but instead a weaning off of the program. Since they announced that their remaining purchases would be rationed out until the end of March 2010, the average purchases per week have been moving lower, down to $14 Billion per week so far in November.

Chart: Fed's Purchase of Mortgage Backed Securities (Weekly Averages Per Month)



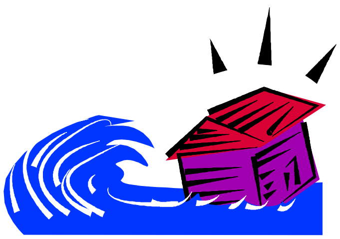
The Fed's Mortgage Backed Security purchase program has begun to tail off, with a scheduled end date of March 30, 2010. The $14B purchased on average per week in November is down from May's average of $25B.

As the demand for an item slows down... the price goes down. So as bond prices fall, interest rates will go up. Thus, as the Fed's program wraps up and eventually stops, home loan rates will be driven upward. So while rates are still very good, they may not be for long.

HOMEOWNERSHIP—AFFORDABLE, FOR THE EMPLOYED

While the Great Recession has ravaged savings and hiked unemployment rates, it has also made homes a lot more affordable—at least for those people still working. More than 70% of homes sold during the third quarter were deemed affordable according a quarterly report from the National Association of Home Builders (NAHB) and Wells Fargo. The NAHB found that the typical American family, making the nation's median income of $64,000 a year, could afford to buy 70.1% of all homes sold during the third quarter of '09, if they devoted no more than 28% of their take-home pay toward housing costs. You no longer have to be a millionaire to buy a home—just a job.

1 IN 4 MORTGAGES "UNDERWATER"



Negative equity, also called being "underwater" or "upside down" on your mortgage, has become more common as home values plummet. These terms are being applied to considerable number of homeowners: almost 10.7 million U.S. mortgages were "underwater" as of September or 23% of people with mortgages owe more than their home is worth, said research firm First American CoreLogic. Another 2.3 million homeowners are within 5% of negative territory, the report stated. The two figures combined comprise almost 28% of all residential properties with mortgages. The report is closely watched because borrowers who are underwater are more likely to be foreclosed.

Foreclosures have been rampant for some time, but lately the rate of foreclosure has begun to wane, in part, because falling home prices has reversed their course in many regions in the past six months. If home prices continue to go up or, at least stabilize, fewer mortgage borrowers will find themselves underwater in the coming months.

State totals: The majority of underwater mortgages are heavily concentrated in the so-called "bubble states". The five states that have been particularly hard hit by the housing bust were: Nevada, at 65%; Arizona, at 48%; Florida, at 45%; Michigan, at 37%; and California, at 35%.

SPECIAL OF THE MONTH:

The solution space to the above problem is, coincidentally, this month's special of the month. The **Fannie Mae DU Refi Plus** is a program specially designed to benefit borrowers who are upside down in their home. It allows borrowers to refinance up to 125% of their first mortgage into a 30-yr. fixed rate loan. **At 4.625%, the rate is also very attractive.** The only qualification is that their existing loan is owned or guaranteed by Fannie Mae or Freddie Mac. Fortunately, 70% of all conforming loans are.

MADNESS IN THE MORTGAGE BUSINESS

In the past few months, I estimate that it has become 40% harder to close loans. A report, last month, from the Federal Reserve seemed to echo my belief for it stated that 32% (roughly 1 out of 3) loans are presently being declined. Prior to April, I routinely funded loans in 30 days or less. My best record, start to finish, was 8 days. Because of recent developments (and new legislation to be enacted in January) I suspect I will never better that time. I say this because borrowers and realtors need to be aware of what we as brokers and our processors are having to deal with. In the past 6 months, loan originators have been hit with three times as many conditions from lenders as in the past.

Lenders (underwriters) are conditioning brokers (and by extension buyers and borrowers to death). As recently as February, when we received a loan approval and forwarded the usual documentation we would get 4-7 Prior-To-Doc (PTD) conditions and maybe 2 or 3 Prior-To-Funding conditions (PTF).

Now, 15-20 PTD conditions is the norm and equally as many PTF conditions. The conditions sheets typically run on for 3 or 4 pages. What's even more frustrating is that lenders are not providing all of the conditions upfront so that we can make one request for all the necessary documentation from our borrowers. Instead, the lenders' underwriters add one or two new ones every day or so, such that brokers and processors must go back to their borrowers repeatedly. This wears out brokers and processors, delays closings and understandably angers borrowers. After all, the home buying process is already daunting enough.

Initially, I thought the new Fannie Mae requirement known as the Home Value Code of Conduct (HVCC) which went into effect on May 1st of this year was partly to blame. Under the HVCC brokers are proscribed from contacting appraisers directly and must order their appraisals through the lender's appraisal management company. The unfortunate fall-out from this well-intended but poorly executed legislation is that it has added expense and delays to the process. The Mortgage Disclosure Information Act (MDIA) was another newly enacted piece of legislation requiring that borrowers receive lender disclosures and certain waiting periods must be observed before appraisal can be ordered. While the unintended consequences of both bills have added time and expense to loan closings neither accounts for brokers being inundated with a raft of PTD and PTF conditions.

The actual explanation of how we came to be where we are today requires a little history. Although the loan programs of yesteryear that contributed to the housing bubble like the No Docs, the No Ratios, the NINJAs, and the various Stated Programs are long gone. These programs made it very easy for borrowers to qualify. Some brokers, lenders and borrowers took it a step further and colluded to defraud lenders. It wasn't until the housing bubble burst that the sheer magnitude of how many bad loans had been written and how badly savaged were the investors who bought this questionable paper. In speaking with various lenders it appears that the investors who purchase mortgage backed securities like pension funds, hedge funds, insurance companies, etc. have hired armies of auditors to insure that they are not victimized anew and that the loans they buy from various lenders conform to Fannie Mae and Freddie Mac guidelines.

Even though lenders' guidelines have tightened considerably over the past two years, the pendulum has swung to the other extreme and lenders are having to buy back these loans from investors because the [lenders] underwriters were not rigorous enough in their initial underwriting. One sales manager told me that in a number of instances they had to buy loans back from Fannie Mae that they had submitted them to because the investors said that the documentation was incomplete or missing. [Lenders then attempt to obtain the missing data and resell these loans to a new investor]. Conditions that were formerly waived, no longer are. As a result lenders are conditioning for every thing under the sun. When they have to buy back or "portfolio" these loans for their own account it reduces their warehouse line of available credit to fund more mortgages. Consequently, they are being careful in the extreme.

The other area that has become nightmarish for broker and borrowers is funding. For those of you unfamiliar with the chronology of funding steps on a purchase it used to go like this: docs are signed by the buyer/borrower on day one, the signed docs are sent back to the lender and reviewed on day two and (if the lender has afternoon fundings) the loan funds that day, if not, the loan funds the following morning (usually before noon). The loan records the next day and disbursements are made by escrow to real estate agents and mortgage brokers on day four (or five depending on whether the loan funded on the afternoon of day two or the morning of day three). With a refinance of one's primary residence the process is slightly longer in that the borrower must wait an additional three days after signing docs for the right of rescission to elapse (in case the borrower has a change of heart about refinancing) before the loan funds. Investment property has no three-day right of rescission so the funding follows the same time frame as would a purchase.

Allow me to illustrate two recent examples with two different lenders for two highly qualified parties—one a purchase, the other a refi. In the first instance my processor was informed by the funder at one o'clock the day the loan was to fund that the lender had stipulated sixteen (16) Prior to Funding Conditions and wanted to know if the processor would be satisfying them

that afternoon. The beleaguered processor said, "Why couldn't you have alerted us to these conditions weeks ago rather than at the last minute?" The response back was "they're here, now." She busted her butt to get all the conditions in because the home buyers had signed the previous day [a Wednesday] and wanted to be in over the weekend. Then (the lender) just sat on the documentation--not reviewing or signing off on it the next day, or the one after that or the one after that. The lender delayed funding until 4 days later. The lender claimed that this was all part of their QC or (quality control) process. This is maddening. In the case of the refi, the underwriter asked us for an appraisal on a property in addition to the subject property. I don't know what to say to realtors and buyers (borrowers) except to tell them the truth.

A few weeks back I ran into one realtor estate broker and he told me that he wished he had done his refinance through me. I jokingly responded, "I wished you had, too" and asked him why. He told me that he had gone through the manager at Bank of America thinking that he would have fewer problems with a big lender and that the manager with his influence would be able to give him more expeditious service. He found that such was not the case--it took 6 months to complete the loan process! On the other hand, when I complained to the acting manager (at a medium-size lender) about how onerous their conditions had become, he told me that he had just gotten off the phone with another mortgage broker saying that he was sending them all of his business and that he would never send another loan to a Wells Fargo because of the four months it had taken them to close a file.

I know this sort of service must sound absurd to outsiders, but this is what we are dealing with---and it's industry-wide.

HOMEOWNER AFFORDABILITY AND STABILITY (HASP): FEW ARE HELPED

Back in March when I first reported on this program I surmised that it would be ineffectual because lender participation was voluntary not mandatory for lenders who received T.A.R.P. funds from the administration. Not too surprisingly, fewer than 5% of troubled homeowners have received trial modifications under the administration's loan modification plan. As of September 1, according to the Congressional Oversight Panel which monitors the government's use of bailout funds, only 1.26% of all trial adjustments were made permanent after three months. Under the President's plan, delinquent borrowers are put into trial modifications for several months to make sure they can handle the new payments and to give them time to submit their financial paperwork. If they qualify for a long-term modification, borrowers can keep making the lower payments for five years, after which time the interest rate is set at the rate at the time of the adjustment, or about 5% today. During the trial period, borrowers must send in the documentation needed to verify their income and expenses, including tax returns, pay stubs and bank statements. Homeowners must also be timely with their trial payments to receive long-term adjustments. Only 26% of those have also submitted all of the required documents.

MORTGAGE LOANS: RECORD NUMBER ARE LATE

Mortgage borrowers are still falling behind on their payments in record numbers, despite the many foreclosure prevention efforts initiated by the government and non-profits. In the third quarter, 9.64% of all mortgage loans were delinquent, according to a report released on Thursday by the Mortgage Bankers Association. This equals 4.5 million borrowers. Despite the recession ending in mid-summer, the decline in mortgage performance continues. Job loss is the major culprit. The delinquency rate includes all mortgage loans that are at least one payment past due but does not include loans in some stage of foreclosure. The combined percentage of loans in foreclosure or at least one payment past due was 14.41% on a non-seasonally adjusted basis, the highest ever recorded in the MBA delinquency survey.

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

Courtroom Testimony

These are things people actually said in court, word for word, taken down and now published by court reporters who had the torment of bursting into laughter while these exchanges were actually taking place.

ATTORNEY: Are you sexually active?
WITNESS: No, I just lie there.

ATTORNEY: What is your date of birth?
WITNESS: July 18th.
ATTORNEY: What year?
WITNESS: Every year.

ATTORNEY: What gear were you in at the moment of the impact?
WITNESS: Gucci sweats and Reeboks.

ATTORNEY: How was your first marriage terminated?
WITNESS: By death.
ATTORNEY: And by whose death was it terminated?

ATTORNEY: Is your appearance here this morning pursuant to a deposition notice which I sent to your attorney?
WITNESS: No, this is how I dress when I go to work.

ATTORNEY: Doctor, how many of your autopsies have you performed on dead people?
WITNESS: All my autopsies are performed on dead people.

ATTORNEY: ALL your responses MUST be oral, OK? What school did you go to?
WITNESS: Oral.

ATTORNEY: What was the first thing your husband said to you that morning?
WITNESS: He said, "Where am I, Cathy?"
ATTORNEY: And why did that upset you?
WITNESS: My name is Susan.

ATTORNEY: Now doctor, isn't it true that when a person dies in his sleep, he doesn't know about it until the next morning?
WITNESS: Did you actually pass the bar exam?

ATTORNEY: Are you qualified to give a urine sample?
WITNESS: Huh?

ATTORNEY: Were you present when your picture was taken?
WITNESS: Would you repeat the question?

ATTORNEY: So the date of conception (of the baby) was August 8th?
WITNESS: Yes.
ATTORNEY: And what were you doing at that time?
WITNESS: Uh...

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
2010**