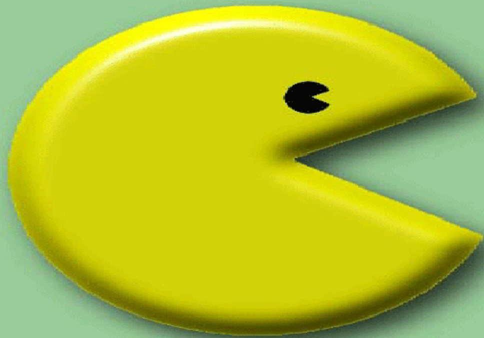

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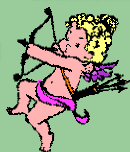

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CURRENT EVENTS

After only a few days in office, "IMPRESSIVE", the word that comes to mind based on the flurry of activity we've seen emanating from the Office of the Presidency as compared to the 8 years of the prior administration's fecklessness. One also gets the feeling that something has been restored to the country that's been sorely lacking and that is LEADERSHIP. At the end of his first week President Obama has begun a regulatory overhaul to implement wide-ranging changes in the financial sector, including stricter federal rules for hedge funds, credit rating agencies and greater oversight of the complex financial instruments (e.g. derivatives and credit default swaps) that contributed to the economic crisis.

<u>1/ 2</u> Stocks rallied Friday afternoon, with investors starting off the New Year on the right foot after an abysmal 2008 during which the Dow lost 33.8%.

<u>1/05-1/9</u> The nation's six largest automakers all reported December sales declines of more than 30% Monday, capping the industry's worst year since 1992. The Federal Reserve predicts the economy will get worse: it expects Gross Domestic Product (GDP) to decline in 2009 and unemployment to rise into 2010. Those recession concerns were reinforced, Wednesday, after news from ADP, a payroll services firm, that private employers cut 693,000 jobs from their payrolls in December. The market swooned by some 245 points. As expected, the nation's retailers reported dismal December sales, Thursday, as the recession continued to hit consumer spending. Many retailers also warned that quarterly results will decline as well. Friday, the Bureau of Labor Statistics released information that the unemployment rate had risen to 7.2% in December, the highest it has been since 1993.

<u>1/12-1/16</u> Monday, the market slumped 125 points as corporations issuing early Q4 reports confirmed that sales and earnings were proving every bit as dismal as anticipated. Federal Reserve Chairman Ben Bernanke said Tuesday that additional bailouts of financial institutions may also be needed to bring about a sustained economic recovery. In response to Citigroup's proposed sale of controlling interest in Smith Barney to Morgan Stanley the troubled banking giant saw its shares plunge 16% in value while the overall market dropped another 250 points, Wednesday, owing to the ongoing problems in the banking sector. House Democrats on Thursday released an expansive economic recovery plan that calls for $550 billion in spending and aid to states and $275 billion in tax cuts. Friday, the European Central Bank cut rates to 2%, its lowest level. In America, investors mulled over the federal bailout of Bank of America, and Citigroup's plan to split its businesses, amid broader worries about the financial sector.

<u>1/19-1/23</u> Markets were closed Monday because of Martin Luther King's birthday. Stocks slumped to a two-month low, Tuesday, with the Dow bowing 332-points as more details surfaced about just how difficult the fourth-quarter was for the financial services industry. Stocks bounced back on IBM's earnings report on Wednesday, recovering most of the previous day's losses, as investors scooped up bank shares hit hard in the recent retreat. Stomach-wrenching volatility seems to have returned to equity markets with 200-300 point peaks and valleys from one day to the next or even within the same day as was the case Thursday. Housing starts and building permits both tumbled to record lows in December, the government reported. California's unemployment rate jumped to 9.3% in December from 8.4% in November as job cuts swept across most industries, with recession tightening its grip on the most populous U.S. state, officials said Friday.

1/26-1/30 Monday, Home Depot, Caterpillar, Sprint Nextel, John Deere, and ING all announced sizable job cuts. This is further proof that this

recession is hitting all sectors of the economy and all areas of the globe. It is not good news. The S&P Case-Shiller Home Price Index, a sampling of 20 cities from across the nation, fell a record 18.2% over the 12 months ended Nov. 30, to levels not seen since 2004, according to a report released Tuesday. Home values in San Diego showed a 1-yr. decline of 25.8%. Stocks rallied strongly (up 200 points) Wednesday as the Fed elected to leave the Fed Funds Rate in a range between 0.0% and 0.25%. In Q4 the U.S. economy suffered its biggest slowdown in 26 years, according to a government release. Job losses exceeded 100,000 for the week and the Dow dropped to 8,000 on Friday.

RATE SUMMARY: *Mortgage rates dropped dramatically two weeks into the month when the Federal Reserve began to buy up to $500 billion of mortgage-backed securities by government-sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae. (The program also entails buying up to $100 billion of debt issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks). When there is an increased buying demand prices move higher and, most often, when Bond prices move higher, home loan rates improve because the money coming out of Stocks is often parked in the Bond market. Both Bonds and home loan rates responded by reaching never-before-seen levels. This is not apt to last, however, because last year's $750 billion stimulus package, the $825 billion one proposed for this year, and the $3 trillion in loan guarantees that were made last year will have an inflationary impact. Inflation devalues the principal of bonds and depresses demand, whereas deflation supports demand for bonds. The credit crunch has certainly hit one sector of the mortgage market and that is Jumbo loans. Although, the pricing has been ugly for the past year it has now moved toward 'hard money' rates as most lenders have abandoned the market. For example, last year I had 25 lenders doing them, now there are two left.*

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.

Twelve more lending casualties were racked up this month, the most notable being J. P Morgan Chase wholesale. This brings the running total to 327 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.

Last week, many former clients received the following email blast from me:

Homes are on sale, sellers are motivated, and interest rates are at historic lows...but they may not stay that way, which means it makes sense to get moving on that home purchase or refinance you've been contemplating. But if you are among the smart individuals who are going ahead and taking advantage of the low home loan rates to be had right now, there are a few things to be aware of.

With interest rates at record lows, all lenders in the US have recently seen a sharp increase in loan applications at the same time that many lenders have cut staffs to save money in a challenging economy. This means that timeframes needed for underwriting, approvals and closing have become longer than normal. Some companies have chosen to actually raise rates just to slow down the volume to a manageable level.

Among the things you can do to protect yourself: First, longer lock ins than might normally have been considered are a necessity to ensure that the file has time to be processed, underwritten, approved and closed in time to protect the rate lock in this extremely volatile climate. The longer, safer lock-in period may be a bit more costly—but it's money well spent. Overall, the mind set here should not be one of greed. Don't try to squeeze every last drop out of rates. If you are within a quarter percent of the lowest rates offered in the history of this country, you did very well. And rates always shoot up higher at a much faster pace than when then

dip lower. So, if the savings or opportunity make sense—grab it.

Next, responding quickly to requests for information or documentation is important—the faster the file is submitted and approved, the better off one is to keep that low interest rate protected.

Giant mortgage buyers Fannie Mae and Freddie Mac have recently imposed more "risk-based pricing adjustments", meaning that even credit scores and loan to values which in the past would have been considered very low risk, may now be subject to additional mandated fees by Fannie and Freddie. And based on the way lenders have changed their rate sheets over time, there is now very little "premium pricing", which used to allow options for fees, points or other closing costs to be covered in return for a slightly higher interest rate.

But, now, rates are climbing. Simple Reason: the government needs to issue more debt to pay for a rescue. And in order for all of this supply to attract investors, yields have moved higher. There is yet time to act, before today's low rates are a case of "could've, would've, should've".

THIS ISSUE'S TOPIC:

THE SOLUTION TO THE CURRENT ECONOMIC CRISIS

If we are going to spend trillions of dollars of taxpayer money, it makes more sense to focus **less** on the failed institutions at the top of the financial system and **more** on the individuals at the bottom. After all, the current crisis started with the collapse of the housing bubble and—spread—to the financial markets—then to the credit markets. In short, it seems to make more sense to go at this problem from the bottom up rather than the top down. Also, if done in a timely fashion it might save several more homeowners their homes, instead of the top down approach.

WHAT'S BEEN TRIED SO FAR HASN'T WORKED VERY WELL

In last month's issue I recounted a welter of programs on which our tax dollars had been spent. Though a few industries have been shored up at a considerable expense to the Treasury, the downward spiral of housing prices seems to have continued, unabated. While banks have written down more than half a trillion dollars in mortgages and mortgage-related securities, homeowners have gotten little or no relief. You may recall that former Treasury Secretary Paulsen's Troubled Asset Relief Program (TARP) stated purposes were: 1) to buy and refinance home mortgages and 2) to buy what came to be called "troubled assets." The legislation signed in October empowered the TARP to do both. Sadly and amazingly, it has done neither.

MORTGAGE-RELATED SECURITIES

There were several rationales for buying troubled mortgage-backed securities. First, panic had virtually shut down the markets for these securities —markets that had to be restarted to restore our system of mortgage finance. Second, part of the panic stemmed from the fact that nobody knew what the securities were worth. A viable market must be able to provide objective valuations. Third, many mortgages are buried in complex securities like CDOs, CMOs, & SIVs. Buying the securities would let government refinance the underlying mortgages. Furthermore, there were clear synergies to be derived: buying mortgage-backed securities enables the government to acquire mortgages to refinance. Refinancing mortgages to avert foreclosures enhances the values of these securities, and both policies support the one position that Secretary Paulson has embraced wholeheartedly—bolstering the finances of banks.

RECAPITALIZING BANKS

Instead, taxpayer money has been used mainly to recapitalize ailing banks. The funds were used to buy preferred stock with no control rights, at above-market prices and with no strings attached. Banks receiving capital injections had no imposed minimums regarding the volume of loans or aggregate amounts it made post-injection. So banks were able to just sit on the capital, which is what most of them have done, or use it to make acquisitions, as a few have done.

Granting the Secretary the authority to buy “any other financial instrument” was a reasonable addendum to the law because it afforded the flexibility to respond to unforeseen circumstances—an auto bailout, for example. But whoever imagined that the addendum would consume nearly all the TARP money, ironically, leaving nothing for its two earlier stated purposes?

Ideally, we should be attempting to stabilize the housing prices to stem the tide of foreclosures. This would also help the banks with their collateral in the forms of mortgage backed securities and HELOCs that are now, in effect, unsecured because their values are underwater. Instead of squandering the peoples' money on bailing out the banks, it should be employed to rescue homeowners. As many as 20 million families face the decision of whether to make the payments or turn in the keys. Congress seemed to have understood this problem, which is why last year it created a program under the Federal Housing Authority to issue homeowners new government loans based on the current appraised value of their homes.

And yet the program, called **Hope For Homeowners**—part of an act passed in July and put into effect Oct. 1—designed to aid 400,000 homeowners is an abject example of the untoward political influence of Wall Street. As it now stands, banks must initiate any new loan; and they are loath to do so because it requires them to recognize an immediate loss. They prefer to “work with borrowers” through loan modifications and payment plans that present fewer accounting and earnings problems yet fail to resolve and prolong the underlying issues. It appears that the banking lobby managed to insert into the law the dubious requirement that troubled homeowners repay all home equity loans before qualifying. An “unmitigated fiasco” is perhaps the best appellation for the Hope for Homeowners program. To date, there have been only 312 applications—and no mortgage modifications whatsoever have taken place.”

LOAN MODIFICATIONS

And speaking of loan modifications, another similar sounding program, Hope Now, was begun in January of 2008. The alliance for HOPE NOW hyped the fact that

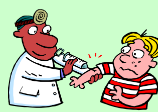
in the first three quarters of last year, over 1.5 million loan modifications were performed, which contained almost 1 million repayment plans and nearly 650,000 loan modifications. The three top firms, Citigroup Inc., Bank of America Corp., and J.P. Morgan Chase & Co., claim to have assisted almost a quarter million homeowners in avoiding foreclosure proceedings in October alone.

But, in actuality, the lenders merely did little more than do a loan forbearance in two-thirds of the cases, whereby they forgave the current delinquencies and added them to the end of the mortgage. Despite supposed efforts to prevent foreclosures, only 35 percent of voluntary mortgage modifications reduced monthly payments; 20 percent of modifications had no effect either way on the payment amount and nearly half of all modifications—45 percent—resulted in an increased monthly payment.

In other instances, temporary modifications were achieved through adjusting the interest rate and the amortization term—for only five years—with rate and payment increases after the 60th month. Servicers also used balloon payments and other forms of deferrals in order to reduce payments temporarily without actually reducing the total debt. All of these measures amounted to delayed forms of “deferred payment shocks”, the same sort that contributed to the foreclosure crisis.

Hope Now's critics claimed that many of the mortgage modifications that were done would prove unsuccessful because they did little to actually lower mortgage payments. As we've seen they merely froze rates—at unaffordable levels—and added missed payments to mortgage balances. And the critics were right—**more than half of the mortgages modified in the first quarter of '08 were already more than 30 days delinquent by the third quarter.**

THE SOLUTION



Congress might grant qualifying homeowners the ability to get new government loans based on the current appraised values without requiring their bank's consent. When a corporation gets into trouble, its lenders often accept a partial payment in return for some share in any future recovery. Similarly, homeowners should be permitted to satisfy current first mortgages with a combination of the proceeds of the new government loan and a share in any future recovery from the future sale or refinancing of their homes. Lenders who issued second mortgages should be forced to release their claims on property. The important point is that homeowners (not lenders) be granted the right to obtain new government loans. To work, the program needs to be universal and should not require homeowners to file for bankruptcy.

There are also a handful of other perfectly obvious changes in the financial system to be made, to prevent some version of what has happened from happening all over again. A short list follows:

STOP MAKING DECISIONS WITH LONG-TERM CONSEQUENCES BASED ON THEIR SHORT-TERM EFFECT ON STOCK PRICES

Stock prices go up and down—let them. In the past year, a number of crises have been negotiated or resolved over weekends (e.g., Lehman Bros., Bear Sterns, AIG, & Wachovia) so that they may be presented as a fait accompli "before the Asian markets open." This crisis-to-crisis management approach to decision-making lacks coherency for the obvious reason that it is more or less driven by a desire to please the stock market. The Treasury, the Federal Reserve and the S.E.C. all seem to view propping up stock prices as a critical part of their mission. If the policies are sound, the stock market will eventually sort it out and "discount" it.

END THE OFFICIAL STATUS OF THE RATING AGENCIES

Given their performance it's hard to believe credit rating agencies are still around. There's no question that the world is worse off for their dereliction of duty. There should be a rule against issuers paying for ratings. Either investors should pay for them privately or, if public ratings are deemed essential, they should be publicly provided.

REGULATE CREDIT-DEFAULT SWAPS

There are now tens of trillions of dollars in these contracts between big financial firms. Until very recently, companies didn't have to provide even cursory disclosure of credit-default swaps in their financial statements. Their stupendous, unregulated growth threatens the very credit markets they were designed to insure. As they're currently constituted it's like buying fire insurance on your neighbor's house, possibly for many times the value of that house—from a company that probably doesn't have any real ability to pay you if someone sets fire to the whole neighborhood. The most critical role for regulation is to make sure that the sellers of risk have the capital to support their bets.

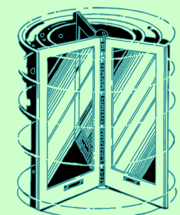
IMPOSE NEW CAPITAL REQUIREMENTS ON BANKS

A better idea would be to require banks to hold less capital in bad times and more capital in good times. Now that we have seen how too-big-to-fail financial institutions behave, it is clear that relieving them of stringent requirements is not the way to go. Another good solution to the too-big-to-fail problem is to break up any institution that becomes too big to fail as was done with Standard Oil in 1911.

CLOSE THE REVOLVING DOOR BETWEEN THE S.E.C. AND WALL STREET

At every turn we keep coming back to an enormous barrier to reform: Wall Street's political influence. Its influence over the S.E.C. is further compromised by its ability to enrich the people who work for it. Realistically, there is only so much that can be done to fix the problem, but one measure is obvious: forbid regulators, for some meaningful amount of time after they have left the S.E.C., from accepting high-paying jobs with Wall Street firms.

BUT KEEP THE DOOR OPEN THE OTHER WAY



If the S.E.C. is to restore its credibility as an investor protection agency, it should have some experienced, respected investors (which is not the same thing as investment bankers) as commissioners. President Barack Obama should nominate at least one with a notable career investing capital, and another with experience uncovering corporate misconduct. As it happens, the most critical job, chief of enforcement, now has a perfect candidate,

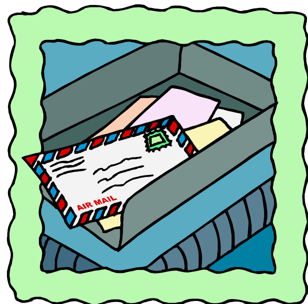
a civic-minded former investor with firsthand experience of the S.E.C.'s ineptitude: Harry Markopolos. For those of you who are unfamiliar with the name, Harry Markopolos was the man who ten years ago informed the S.E.C that Bernie Madoff's operation was most likely a giant Ponzi scheme.

SPECIAL OF THE MONTH: Conforming 30 Year Fixed at 4.875%

PRICING FOR 1/30/2009 AT PAR WITH A 30 DAY LOCK.

RATES CHANGE DAILY

MORTY'S MAILBAG



Again, there were no letters in the mail bag, 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

The local sheriff was looking for a deputy, so Gomer went in to try out for the job.

"Okay," the sheriff drawled, "Gomer, what is 1 and 1?"

"11" he replied.

The sheriff thought to himself, "That's not what I meant, but he's right." "What two days of the week start with the letter 'T'?"

"Today and tomorrow."

The sheriff was again surprised that Gomer supplied a correct answer that he had never thought of himself.

"Now Gomer, listen carefully: Who killed Abraham Lincoln?"

Gomer looked a little surprised himself, then thought really hard for a minute and finally admitted, "I don't know."

"Well, why don't you go home and work on that one for a while?"

So, Gomer wandered over to the barbershop where his pals were waiting to hear the results of the interview. Gomer was exultant. "It went great! First day on the job and I'm already working on a murder case.

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

NEXT ISSUE'S TOPIC: ANOTHER 'MODEST PROPOSAL'