Newsletter - Vol. 6 Issue 3

March 2009

mortgagestraightTalk.com

Tel: 760-726-4600 Cel: 760-717-8584

Fax: 760-639-0785

Rod@MortgageStraightTalk.com

CURRENT EVENTS

2/2-2/6 The Institute for Supply Management's manufacturing index rose to 35.6 in January from a revised 32.9 in December; the number still reflects a recessionary environment. The Dow closed at 7936, Monday. Tuesday, the automobile industry reported that new vehicle sales fell 37 percent and that January was the worst month in nearly 27 years. Blue chips lead a retreat Wednesday as investors focused on weak earnings from Disney and Kraft, amid more worries about the bank sector. Mortgage rates hit a six week high, Thursday. The 30-year fixed rate jumped to 5.70%, and more volatility is expected as Senate debates the economic stimulus package. Stocks jumped over 217 points on stimulus package hopes while unemployment climbed to 7.6%, the worst in 34 years.

2/9-2/13 The dollar was hurt by delays in passing the economic stimulus package. Both the Euro and the Pound rose sharply against the Dollar, Monday. Stocks dropped to a 3-month low, Tuesday, falling some 381 points as Treasury Secretary Geithner's new version of the bank bailout plan failed to soothe jittery investors. The Treasury Department said Wednesday that the federal budget deficit grew $83.8 billion in January, bringing the total deficit for the first four months of the fiscal year to $569 billion. The National Association of Realtors reported that home prices dropped a record 12.4% in the final quarter of 2008, the biggest year-over-year decline in 30 years. The House passed a $787 billion economic stimulus package, Friday. The Dow closed at 7850 for the week.

The recently passed Stimulus Bill falls short of what is needed. Of the $787 billion--

- **$308 billion to goes to discretionary spending**
- **$212 billion to tax relief**
- **$288 billion in direct aid to state and local governments (for budget shortfalls, unemployment and food stamps)**
- **$59 billion to energy**

While the $150 billion Economic Stimulus Plan that the Bush administration advocated and that Congress passed back in February 2008 was larded with tax cuts and too little spending stimulus to be effective, the latest Stimulus Package also falls short of profiling the 70% that consumer spending comprises of GDP. Some aggrieved senators and congressmen deride the stimulus package as nothing more than a huge government spending bill, but that's what a stimulus bill is supposed to do—spend. The theory is that government is the agent of last resort—the only entity with enough money to jump start the economy. Economists from both sides of the aisle agree on this.

2/16-2/20 The markets were closed Monday for Presidents' Day. Stocks sunk to a 3 month low, Tuesday, as investors feared that GM & Chrysler won't be able to repay their debts and the Stimulus Plan won't stop the recession. The Dow sold off nearly 300 points to close at 7552. Wednesday, President Obama committed $275 billion to slow foreclosures. Under the plan the Treasury will buy as much as $200 billion of preferred stock in Fannie Mae and Freddie Mac. The Obama plan will use $75 billion from the $700 billion financial bailout fund to match reductions lenders make in interest payments that lower borrowers' payments to 31 percent of their monthly income. Yesterday, the stock market slid to 7465, a 6-year low, as fears of a prolonged recession sent stock investors heading for the exits.

The Dow hit another triple digit decline, Friday, as worries about the banking sector exacerbated fears of a further downturn.

2/23-2/27 On Monday, the Dow tumbled 250 points to 7114, a level not seen in nearly 12 years as investors continued to fret that the government's efforts to slow the recession would be insufficient. The Market recorded a 236 point gain after Monday's rout. Comments from Fed Chairman Ben Bernanke that downplayed bank takeover fears helped spark the rally. Sales of existing homes fell in January to their lowest levels in nearly 12 years, according to the National Association of Realtors on Wednesday. It attributed the decline to buyers delaying purchases in anticipation of government programs to boost the housing market. Thursday, the Federal Deposit Insurance Corp. (FDIC) reported that number of institutions on its so-called "problem bank" list grew to 252 during the last three months of 2008, compared with 171 banks making the list in the prior quarter, the highest level since 1994. The Bureau of Economic Analysis reported Friday that Gross Domestic Product (GDP) fell at an annual rate of 6.2% in Q4.

RATE SUMMARY: Over the past month, the rates have bounced up and down with very little net change. The biggest improvement was in the 5/1 and 5/1 Interest Only (I/O). The former was so poorly priced I didn't bother to list it and instead went with the 30 yr. Interest Only. Now, the 5/1 ARM and the 5/1 I/O can be had for as little as 4.375%. The other big change from a month ago is that Jumbo loan programs (those above $546,250) have gone away. FHAs & VAs have hardly changed; the one exception is the VA Jumbo at 5.625%, 0.75 cheaper than a month ago.

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.

Eleven more lending casualties were racked up this month. This brings the running total to 338 mortgage lenders that have "imploded" since the beginning of 2007, meaning that they have major operations, filed for bankruptcy or become a "fire sale" another lender.

ADDENDUM TO THE JANUARY FORECAST:

The International Monetary Fund (IMF) forecasts that developed economies will contract slightly in 2009, while overall world output will grow only 2.2 percent. The fund defines a global recession as growth below 3 percent, because that is far too weak to keep up with the demands of a growing population in emerging markets for jobs. The US economy is predicted to decline from its 1.8% growth in 2008 to 0.9% in 2009. Thus, it is theorized that during 2009 "the weak will get weaker (or disappear) and the strong will get stronger."

THIS ISSUE'S TOPIC: ANOTHER 'MODEST PROPOSAL'

With respect to his economic stimulus package, President Obama observed that no one party has a monopoly on good ideas—that they originate from various sources and that the Administration and Congress should be open to identifying "good ideas" and not fixate on ideology or "pride of authorship". Similarly, I feel that another point of view is warranted with regard to what I term "The Great Recession". Last month, I featured one solution to the housing crisis; the subject of this issue is an alternative approach. A number of economists have pointed out the need to de-leverage the American homeowner (see "**FORECLOSURE SALES REVEAL MORE DISTURBING TRENDS**" elsewhere in this issue), saying that excess mortgage debt is depressing home prices and consumer spending are acting as a drag on the broader economy. **Mark Hansen's (a.k.a. 'Mr. Mortgage') multi-step solution** may sound as radical as the Jonathan Swift's satire by the same name, but it has merit: **it is to undo the mortgages made from 2003 to 2007** so as to de-leverage borrowers.

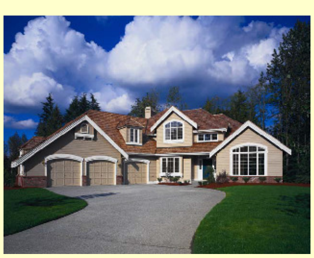
According to his parlance "to undo" means:

1) De-leveraging the home owner/consumer through mortgage principal balance reductions based upon what the borrower really earns using market-rate financing. In the past, lenders required down payments and a borrower's housing expense ratio was limited to 28% of their gross income, their total debt to income (DTI), to 36%. When homes prices fell it was all right because home owners could still save money and do the things they wanted to in life. DTI ratios of 50% income changed the game. He believes it is time for the very same financial institutions that created all of this to do what's right and re-underwrite every loan originated between 2003 - 2007 using prudent underwriting guidelines.

Then, they must reduce the principal balance to what the borrower really earns using a 28% housing and 36% total debt-to-income ratio at a market rate 30-year fixed loan. **When home owners are leveraged at 28/36 they are able to save money and live a decent lifestyle**. If they go upside down in their property, they are still able to save money and live the lifestyle their income level allows. For the small percentage of borrowers who can still afford the payments with DTI's under the 28/36 ratios, but are upside down due to price depreciation, principal balance reductions to 90% of the present value of the property would be called for WITH a full-recourse provision to thwart fraud.

2) Make it so home owners can freely refinance and sell their homes

If reducing the principal balance to 28/36 on a market rate 30-year fixed loan winds up being $100k lower than the present value of the home, the bank can take the differential through an equity warrant to 90% of the value of the property. This way the home owner is not upside down in the home, they can freely sell or refi and the bank is still protected. But the home owner gets all of the upside.



3) Make it so the vitally important move-up buyer comes back

TO FIX THE HOUSING MARKET AND AID THE ECONOMY IT IS ESSENTIAL TO FOCUS ON THE TWO SEGMENTS THAT HERETOFORE MADE UP 80% OF ALL HOUSING ACTIVITY—THE REFINANCE BORROWER AND THE MOVE-UP BORROWER. Now they are the minority.

It is crucial to get these people back into the market. Investors, vacation home buyers, renters and first-time home buyers have always been the smallest segments of the market, whereas now, they're its primary participants. This may be great for low priced homes in foreclosure epicenters, but as the problem spreads into Alt-A, Jumbo Prime and Prime, higher end areas will follow suit. Without any reasonable financing available for loans over $417k, it is already a foregone conclusion.

4) Stop defaults and foreclosures without making home owners underwater, fully-leveraged, renters for the rest of their life as the present mortgage modification plans do.

5) Allow home prices to fall to historic multiples of incomes and rents without exotic loan programs or artificial, temporarily, government induced low mortgage rates.

As he sees it, the solution is not about the regulators pushing interest rates down to artificially low levels for a brief period of time to entice people into buying homes, which is what got us into this fix. That being said, sustainable low rates are good for the housing market. But low rates mean very little when millions will default and lose their homes over the next few years because of all the added supply can't be absorbed by the available buyers. (It is estimated that 75% of all bank-owned property is not listed). Formerly, the largest segment of the purchase market was the move-up buyers. Today, they are absent from the present sales environment.

Teaser rates, interest only, negative amortization, high allowable debt-to-income ratios, zero down, stated income loans, etc enabled the housing bubble to expand—it made all homes affordable and borrowers rich. Home prices responded by surging higher to meet the new found nationally high affordability level.

While there were people who took advantage of the system it was a comparatively small percentage of everyone who bought a home on flawed and temporary market fundamentals induced by easy credit and exotic loan programs that never should have existed in the first place. This five year period of absolute recklessness and blind greed on the bank's part was the real driver of home prices. As with the financial institutions, the quicker the borrowers de-leverage and raise cash the better for the housing market and economy in general. It is worth spending a few more trillion on quickly de-leveraging US households so they are free to save and spend money on other things besides an underwater house. Prices are coming down fast and the market will clear at some point and at some level. But that level could be years away. **It's simple—housing prices are just going to the levels determined by incomes, rents, interest rates and the macro-economy.**

These things will not prevent housing prices from coming down substantially over the next few years especially considering the massive multi-year foreclosure overhang, gross amount of negative equity across all paper grades and terrible mortgage modifications that the banks and regulatory agencies are now trying to push. But at least it would be the best way to begin to undo the irresponsibility of the past five years and get back to basics where prices are based primarily on traditional factors such as incomes, interest rates, macroeconomic conditions, and rental rates.

SPECIAL OF THE MONTH:

The conforming 5/1 ARM and 5/1 Interest Only @ 4.375% is this month's bargain with both the lowest interest rate and payment (2/27/2009).

FORECLOSURE SALES REVEAL MORE DISTURBING TRENDS

The most recent month for which foreclosure sales data is available shows that:

1) Most borrowers are not walking away because they can't afford the payments. They are walking because all of their after-tax income each month is going out in bills and the largest portion is going to a home worth half of what they owe. When they are spending such a large portion of their income on a depreciating asset, it is necessary to perform financial triage and dump such expenditures. When they can't sell, all that is left is…to walk away.

2) Walkaways are highest in 'non-recourse" states. Mortgage law experts say the incentive to walk away from a home loan is highest in states that have anti-deficiency statutes, which prohibit lenders from suing borrowers for additional funds after foreclosure. These anti-deficiency laws make a huge impact on foreclosure rates because they are basically 'get out of jail free' cards. The handful of non-recourse mortgage states includes the high-foreclosure states of California and Arizona, which, not coincidentally, are leaders in the numbers of mortgage walkaways. The full list: Alaska, Arizona, California, Connecticut, Florida, Idaho, Minnesota, North Carolina, North Dakota, Texas, Utah and Washington.

3) Foreclosures now make up 45% of all sales, nation-wide. Organic sales, which are typically the all-important move-up buyer's and gauge the true health of the housing market are at record lows. Plummeting "organic sales' (an organic sale is a transaction between two private parties and not from the foreclosure stock) means that home owners are not freely able to transact. This indicates that **(a)** home owners are upside down in their home and can't sell **(b)** that the all-important move up buyer is non-existent and can't even afford to buy the home they presently live in due to lack of financing and **(c)** homeowners can't sell their home in order to get the down payment for the new home. Dropping organic sales as a leading indicator of determining a healthy real estate market is a concept that

most have not yet put together.

4) Unlike a year and a half ago there is very little that can be done to cure a default. In the past, you could sell or refinance. A Notice-of-Default (NOD) is the first stage of foreclosure. NODs were running over 40k per month in CA before SB1137 (a new law which delays the foreclosure process by 60 days) was implemented but will begin to spike, again, in January. Nationally, defaults are running close to 100k per month. Currently 10% of all mortgage loans in existence are in some stage of default according to the Mortgage Bankers Assoc of America (MBA). Now, some 75-90% of defaults make it all the way to the foreclosure stage depending on the state.

5) Home resales in the U.S. dropped in November and prices fell by the most on record, signaling a deepening housing recession going into 2009. This is not good. It is a further indication that home prices have not begun to stabilize. Mounting foreclosures are pushing down home prices and adding to the inventory of unsold houses.

FLOOD OF FORECLOSURES

IT'S WORSE THAN YOU THINK

Banks are moving ever so slowly to list repossessed homes for sale, which suggests that housing is in worse shape than we think. As I've been reporting for some time, there appears to be even more excess housing inventory than current statistics indicate. RealtyTrac, the online marketer of foreclosed properties, recently discovered that it has far more foreclosed properties listed in its database, which the company compiles using courthouse records, than there are listed in the Multiple Listing Services (MLS) maintained by real estate agents. RealtyTrac looked at listings in four states, California, Maryland, Florida and Wisconsin, and found that they contained only a third of the foreclosures it has in its database. The scope of the problem isn't clear, but it could be huge considering that RealtyTrac has a total of 1.5 million bank-owned properties on its site. Many properties that should be listed on the MLS are not listed on the MLS

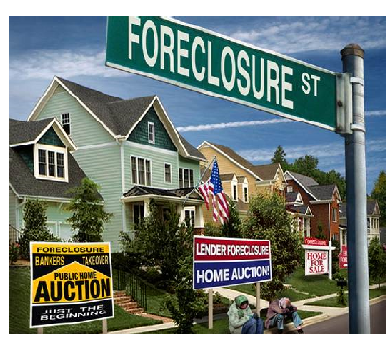
UNDERESTIMATING INVENTORY

The National Association of Realtors (NAR) calculates official housing inventory statistics using data from the multiple listing services. By that measure, there were 4.2 million existing homes for sale in November, an 11.2-month supply at the current sales pace, up from a 10.3-month supply in October. But now it seems quite possible that these figures, which are already at record highs, are understating the situation. And if that's the case, it will take much longer for the housing market recovery than analysts currently expect. Until supply can be brought down to a more normalized level of six to seven months, home prices will remain under pressure.

There are a number of properties that have actually been taken back by the banks, but have not hit the market yet. Once a bank repossesses a property, in some cases, it can take more than six months to hit the market. Either lenders are overwhelmed and can't get these properties back on the market quickly or they're deliberately slowing down, more likely the latter.

WHY THERE'S A DELAY

The problem: many foreclosed homes and other distressed properties that are now owned by banks have yet to be listed for sale. The volume of this so-called 'ghost inventory' is substantial enough to depress already steeply falling prices when it does go on the market. Banks hold back listings in areas where they already have lots of homes for sale in order to avoid flooding the market. When lenders have a significant number of properties in a limited area, were they to flood the market with their inventory it would cause the prices to plummet. So, banks are staggering the listing of their REOs (repossessions) so as to support prices and (they hope) mitigate their loss.



The chief culprit is probably system overload: Lenders are just not prepared to handle the sheer numbers of foreclosures that they have on their books. Lenders still insist they try to act as swiftly as possible. Their goal is to cut their losses on these homes, which are expensive to maintain, as fast as possible. There are also batches of bank-owned homes that don't appear on the multiple listing services because lenders are trying to sell them via bulk and auction sales to investors as well as individuals.

It's also taking much longer to get many foreclosed homes in decent enough shape to put on the market. Bank-owned properties are in worse condition than ever because the foreclosure process is taking longer than ever. As much as a year can pass between the time a borrower first misses a payment and the final auction sale. During that time, houses often deteriorate because owners have neither the money nor the incentive to maintain them. Some disgruntled homeowners may even deliberately damage homes before they leave.

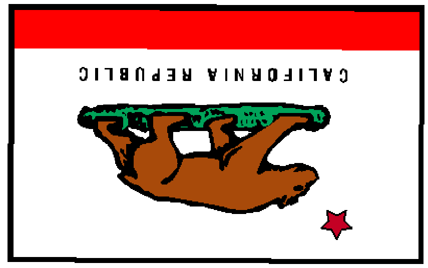
The phenomenon of a growing ghost inventory doesn't promise to get better anytime soon, as long as the rate of foreclosures continues to ravage the market. There were more than 3.1 million foreclosure filings in 2008, according to RealtyTrac.

THE REO MARKET

Of the existing homes sold last month, 60.4% had been foreclosed on in the prior 12 months. One year ago, it was 29.6%. In other words, REO continues to drive real estate trends throughout much of the California housing market.

In Southern California, the median price paid for all homes combined last month was $250,000, DataQuick reported, down 10.1 percent from $278,000 in December and down a record 39.8% from $415,000 in January 2008. Last month's median was the lowest since it was $242,000 in February 2002, and was a whopping 50.5% below the peak $505,000 median reached in spring and summer of 2007.

90-DAY MORATORIUM FOR CALIFORNIA



The California Legislature, as part of the recently-passed budget package, approved legislation SB2X-7 and AB2X-7, which provide for a 90-day foreclosure moratorium. The bill covers owner-occupied homes where the first loan was recorded between Jan. 1, 2003 and Jan. 1, 2008. The bills do, however, allow servicers to be exempt from the moratorium if they have an approved loan modification program in place that meets a combination of criteria — a deferral of a portion of the loan's principal, for example, or lowered interest rates for at least five years or an extension of the loan terms. A law passed in California in 2008 increased the required time period from first notification to final sale by 30 days to a total of 141 days—which many argue just delayed the inevitable.

MORTY'S MAILBAG

Q. Can you explain the difference between a mortgage and a deed of trust which I guess is what you all use out here?

A. The fundamental difference between Deed of Trusts and Mortgages is the procedure that is required in the event that borrower defaults on his or her obligation to pay off the loan and breaks the agreement. With a mortgage, if a borrower defaults, such as by failing to make monthly payments or meet other conditions of the loan, like carrying homeowner's insurance or maintaining the house in good repair, the process is more expensive and time-consuming: the lender has to bring a court action in order to foreclose on the property.

With a Trust Deed, the foreclosure process is sped up and less cumbersome than the formality of a court foreclosure hearing that is required with a Mortgage Deed. If you default on your payment of the loan, the lender simply complies with the provisions of the law of the state where the property is located, gives the appropriate notices, and the trustee then cedes the property back to the lender or the trustee may sell the property at the request of the lender without a court proceeding.

Most of us incorrectly call our home loan a mortgage when in fact it is not. A mortgage is the document proving the legal claim or lien on a piece of property that you give to the lender who holds it as security for the money you borrowed. The lien is recorded in the public records. With a mortgage you pledge the property as security for the repayment of the loan, but you do not transfer title to the lender.

If you (the mortgagee) repay your loan in accordance with the terms of the mortgage, it is cancelled or satisfied by the lender (the mortgagor). If you do not repay your debt, however, the lender has the right to sell the secured property to recover funds through a court proceeding called foreclosure.

In California, and most other states, a deed of trust is used in place of a mortgage. Whereas, a mortgage involves two parties--the borrower and the lender, a deed of trust involves three—the borrower (or trustor), the lender (the beneficiary) and a trustee, a neutral third party, such as an attorney or title agent. As with the mortgage deed, the trust deed is also recorded and a matter of public record. In a deed of trust transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the loan to the lender. The deed of trust is cancelled when the debt is paid. When the loan is fully paid, the title company transfers property title to the homeowner via a deed of reconveyance.

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 man walks into an insurance office and asks for a job.

"We don't need any one," they replied.

"You can't afford not to hire me. I can sell anyone anytime any thing."

"We have two prospects that no one has been able to sell. If you can sell just one, you have a job."

He was gone for about two hours and returned and handed them two checks, one for a $80,000 policy and another for a $50,000 policy.

"How in the world did you do that," they asked.

"I told you I'm the world's best salesman, I can sell anyone anywhere anytime."

"Did you get an urine sample?" they asked him.

"What's that?" he asked. "Well, if you sell a policy over $40,000 the company requires a urine sample. Take these two bottles and go back and get urine samples."

He was gone for about eight hours and then he walks in with two five gallon buckets, one in each hand. He sets the buckets down and reaches in his shirt pocket and produces two bottles of urine and sets them on the desk and says, "Here's Mr. Brown's and this one is Mr. Smith's."

"That's good," they said, "but what's in those two buckets?"

"Well, I passed by the school house and they were having a state teachers convention and I sold them a group policy!"

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 PRESIDENT'S HOMEOWNER AFFORDABILITY AND STABILITY PLAN