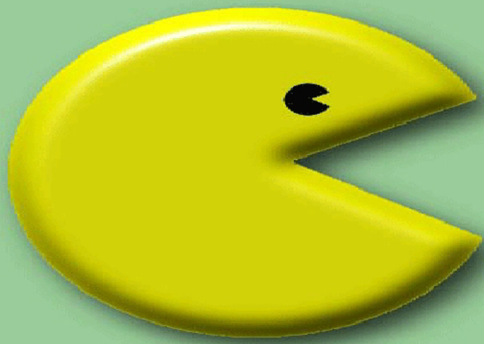

Newsletter - Vol. 6 Issue 4

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LIFE'S NOT FAIR

Jimmy Carter once famously observed something that we all know to be patently true: "Life's not fair." So, the people that rant about the unfairness of bailing out irresponsible homeowners miss the point—it's not about saving the prodigals: it's about the greater good, it's about stanching the torrent of foreclosures which are undermining all home owners equity and net worth, It's about loss mitigation at its most basic level–the grassroots.

What President Obama has been saying all along is that if we do nothing the present financial crisis may spiral into economic catastrophe. If we do nothing to stimulate the economy—to get people spending and buying, the economy will continue to contract. More jobs will be lost because fewer sales are being made, thus there is less demand for products and services, so fewer workers are needed to produce the diminished amount of goods and services that comprise roughly 70% of the American economy. With higher unemployment, more homes will be lost to foreclosure. And the house down the street from you that sold for say $500,000 (the same $500,000 that you paid for your home) is auctioned on the courthouse steps or becomes part of a lender's REO inventory (foreclosures) and is sold for $300,000. Your neighbors lose their home and you lose $200,000 in home equity. In this instance, those who subscribe to the concept of "not wanting to bail out imprudent borrowers" is a bit like "cutting off one's nose to spite one's face". OR, the nation as a whole takes a hit for what amounts to several thousand dollars per capita. Which would you rather have a $200,000 loss or a $20,000 one? You choose.

The administration seems to get the big picture, even if many congressmen and senators don't. The nation's economy is not just the sum of its individuals. At some level we're all in this together. Our economy is an interdependent one in which we all share. To stabilize the aggregate, sometimes the less deserving get a free pass of sorts. If their lives don't stabilize, then our lives don't stabilize, either.

CURRENT EVENTS

3/2-3/6 Monday, after AIG reported a 4th quarter loss of $61.7 billion loss, the Dow shed 299 points to close at 6929, its lowest trading level since April 25, 1997. U.S. Federal Reserve Chairman, Ben Bernanke, Tuesday, defended the government's latest bailout of insurer AIG, telling irate lawmakers that he, too, was angry, but that failure to act could have triggered an economic disaster. Global markets rallied Wednesday on hopes that the Chinese government was planning to boost its spending on infrastructure and manufacturing. Predictions that unemployment would hit 7.9% this week caused the Dow to take another header, Thursday. The market whittled another 281 points off its average to close at 6594. The jobs report, Friday, revealed that unemployment hit 8.1%, a 25-year high.

3/9-3/13 The dollar rose against rival currencies Monday as investors continue to view the U.S. currency as a safer alternative to riskier assets, despite the nation's weak economy.

The Dow logged its biggest gain of the year, Tuesday, gaining some 379 points. The catalyst for the rally was attributed to an internal memo which reported Citigroup was profitable during the first two months of 2009 and an indication from the SEC indicating that it would restore the "uptick rule" aimed at short sellers which forces short sellers to sell at a price higher than the previous trade. Mortgage finance giant, Freddie Mac, said Wednesday that it needs $30.8 billion from the Treasury after it reported a $23.9 billion loss in the 4th quarter of '08.

Stocks jumped 240 points, Thursday, spurred by a smaller-than-expected drop in retail sales and strength in the pharmaceutical sector.

3/16-3/20 Amid rising pressure from Congress and taxpayers, AIG released the names of domestic and foreign banks as well as various states and municipalities that benefited most from the Fed's decision last fall to save the giant insurer from financial collapse. Tuesday, an unexpected surge in new construction for February was cited as one factor that caused the Dow to gain 178 points, the 5th time in 6 sessions. The Federal Reserve announced Wednesday it would buy an additional $750 billion in mortgage-backed securities, a move designed to lower mortgage rates (as the prices of bonds are bid up, the rates fall, as prices rise, which translates into cheaper mortgage rates). Stocks moved higher on the news. Oil prices crossed the $50 a barrel mark Thursday. Thursday's uptick was largely due to the falling dollar, but production cuts from OPEC and scaled-back investments from oil companies indicate low prices are behind us. California's unemployment rate increased to 10.5% in February, official data showed Friday.

3/23-3/27 The week started off with a bang as stocks shot up nearly 500 points Monday. Investors seemed to approve of the Treasury's "Public-Private Investment Program (PPIP)" to buy up billions in bad bank assets, viewing it as necessary to stabilize the financial system. The dollar rose against the euro and the yen on Tuesday, a day after the Treasury Department unveiled its new plan aimed at purchasing up to $1 trillion in bad assets from banks to get them lending again. New homes sale rose unexpectedly in February, rebounding 4.7% after sinking to the lowest level on record in January, according to a government report released Wednesday. Mortgage rates (as a national average) dropped to a 52-year low this week, according to a report released Thursday, in the wake of the government's announcement that it will buy more than $1 trillion in debt. The unemployment rate jumped last month in 49 states with Michigan leading the way at 12%.

3/30-3/31 Stocks tumbled 254 points Monday as worries about the auto industry and banking system gave investors a reason to keep retreating after the recent rally. Tuesday, Wall Street shrugged off more declines in home prices and resumed its upward trend, closing out March with its strongest one-month performance since 2003.

Six more lending casualties were racked up this month, the most notable being HSBC's subsidiaries Beneficial and Household Finance Corp. (HFC). This brings the running total to 343 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: Over the past month, all Conforming rate programs (those under $417,000) have dropped by 1/8th of a point with the exception of the High Balance Conforming (between $417,000 and $546,250)—it dropped 3/8th of a percent. Similarly, FHAs and VAs are between an 1/8th to 3/8th better. The most improved rate for the month was among the Home Possible and My Community programs for low income borrowers (a.k.a. the Conforming Affordables) at 4.875%, an improvement of 7/8th of a percent over last month's 5.75%.

NOTE: Readers often view interest rates on the internet and TV and

expect local rates to mirror national averages. What many of these people fail to understand is that rates are regional. In areas of the country with high rates of delinquency and foreclosure, as in California, (where 8 of the 10 worst real estate markets are currently situated) the rates are commensurately higher.

FOR CURRENT INTEREST RATES OF 16 THE MOST REQUESTED LOAN 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:
THE HOMEOWNER AFFORDABILITY AND STABILITY PLAN (HASP)

On February 18th, President Obama announced a plan to help as many as nine million American homeowners refinance their mortgages or avert foreclosure, saying that it would shore up housing prices, stabilize neighborhoods and slow a downward spiral that was "unraveling homeownership, the middle class and the American Dream itself. The plan went into effect on March 4th. What follows is an overview of the benefits of the Homeowner Affordability and Stability Plan (HASP), and a feature of the Economic Stimulus Plan for 2009 that may impact you.

Under HASP, the Treasury will buy as much as $200 billion of preferred stock in Fannie Mae and Freddie Mac. The plan will use $75 billion from the $700 billion financial bailout fund for refinances and loan modifications. The focus groups for loan modifications are people who are behind in their payments or are at risk of default. Federal officials clarified the definition of "at risk" as those: suffering serious hardships, declines in income or increase in expenses; facing an interest rate hike; having high mortgage debt compared to income; owing more than their house is worth, or demonstrating other reasons for being close to default.

At present, almost one in 10 home mortgages is either delinquent or in foreclosure. Analysts and administration officials alike cautioned that it would not halt foreclosures altogether nor would it provide much help to millions of homeowners who owe much more than the market value of their houses. But, it is a giant step toward salvation for some and abatement for others. Its goal is to preclude some of the consequences of this crisis from wreaking even greater havoc on the economy. By ameliorating the foreclosure rate, it should help to shore up housing prices for everyone.

MORTGAGE RELIEF—FOR SOME HOMEOWNERS

As already touched upon, the plan aims to help homeowners who fall into two basic categories: those struggling to pay their mortgages or those who have been shut out of the refinancing market. It provides lenders with incentives to modify the mortgages of the approximately four million homeowners who are either on the brink of foreclosure or who cannot make their monthly payments to more affordable levels. The plan is also intended to benefit the five million or so homeowners who have been unable to refinance because plummeting home values have eroded much or all of their home equity and precluded them from refinancing at the current low rates.

Beyond luring lenders with government money, the plan also calls on Congress to give bankruptcy judges the power to change the terms of mortgages and reduce the monthly payments. The banking industry has vehemently fought that proposal for more than a year, saying it would make investors unwilling to finance future mortgage lending. Banking executives are putting up less resistance than before. Except for the provision that empowers bankruptcy judges, almost all the other elements can be enacted by Mr. Obama without further action by Congress.

REFINANCING INITIATIVE: HOMEOWNERS WITH LESS THAN 20% EQUITY

Under current guidelines, homeowners with less than 20% equity in their homes are unable to take advantage of the historically low interest rates, currently. This initiative allows homeowners who are STILL CURRENT on their payments to refinance—about some 30 million homeowners. There are THREE STIPULATIONS: **1) THE EXISTING LOANS MUST BE OWNED OR GUARANTEED BY FANNIE MAE OR FREDDIE MAC** (together, Fannie and Freddie account for about half of the mortgage market), **2) THEY MUST BE CONFORMING LOAN AMOUNTS 3) THE DEBT IS BETWEEN 80% AND 105% OF THE HOME'S CURRENT APPRAISED VALUE.**

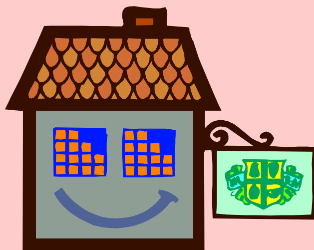
Many of the most problematic loans do not fall under the Fannie-Freddie umbrella. Another big limitation of the refinancing portion of the plan is that it would not help most borrowers who owe little more than their home is worth. It would only be available for mortgages that are not more than 5 percent above the current market value of the house.

If you have a second mortgage you are still eligible as long as the amount due on the first mortgage is less than 105% of the property's value and you have the wherewithal to meet the new terms on your first mortgage. But the lender on your second mortgage needs to agree to remain in a "second position," which means that if you declared bankruptcy, the second loan would be less likely to be repaid. To date, these lenders have not been wholly cooperative.

According to the plan, "credit-worthy" or "responsible" homeowners can refinance their mortgage into a 30- or 15-year, fixed-rate loan based on current market rates. The refinanced loan, however, cannot include prepayment penalties or balloon payments. For many families, this low-cost refinancing may help reduce their mortgage payments by up to thousands of dollars per year. As with the rest of the plan, details about this initiative will be released at a future date--including what, if any, credit score requirements will be included. Those not qualifying would

be mortgages above the conforming threshold—$417,000, although, the limits may be extended to include last year's conforming maximums of $697,500 in San Diego County and $729,750 in Los Angeles County.

THE STABILITY INITIATIVE (OR LOAN MODIFICATIONS)



The professed goal of this initiative is to help homeowners in danger of foreclosure and to stabilize home prices. It is intended to again benefit "responsible homeowners" who are struggling to afford their mortgage payments, but cannot sell their homes because prices have fallen significantly. As such, this is one of the few programs designed to help homeowners who are current on their mortgage, but may soon face delinquency. The President has allocated $75 billion to subsidize loan modifications that would reduce a family's monthly payment to sustainable levels or as little as 31 percent of its gross monthly income.

To qualify, your monthly mortgage payment needs to exceed 31 percent of your monthly gross income and the house you are refinancing must be your primary residence. Mortgages on two-, three- and four-unit properties are also eligible, as long as one unit is your primary residence. You do not need to be behind on your payments to qualify. If your income is no longer enough to make the payments (because your paycheck has shrunk, your expenses rose or your mortgage rate is about to reset higher), you would still qualify.

To accomplish this, it requires that mortgage lenders first agree to reduce a borrower's payments to 38 percent of his (or her) monthly income. Lenders can do this in several ways: by extending the terms of the loan, by reducing the interest rate to as low as 2% or by reducing the outstanding principal. As an incentive for lenders, the government is offering a $1,000 upfront payment for every loan modified and more payments if the borrower stays current. If the lender reduces the monthly payments down to 38 percent of the borrower's monthly income, the government will then match, dollar for dollar, additional reductions to bring the payment as low as 31 percent of monthly income. The initiative provides a monthly balance reduction payment that goes straight towards reducing the principal balance of the mortgage loan. All borrowers who make timely payments will be able to reduce their principal balance by up to $1,000 a year for five years. The new interest rate will remain in place for five years, after which it will increase by 1 percentage point a year until it reaches either the original rate or the prevailing mortgage rate at the time of the modification, whichever is lower.

If rate reductions aren't enough to get payments to 31% of income, a lender can extend the term up to 40 years, or shift part of the principal to the end of the loan at no interest. Mortgage servicers also have the option of reducing the loan's balance. Servicers will receive $1,000 for each loan modified, as well as additional annual bonuses if borrowers keep up with payments. Investors will receive one-time $1,500 incentive payments for restructuring qualifying loans that are not yet delinquent. Finally, borrowers who keep up with their new payments will receive up to $1,000 a year in principal reduction, for up to five years. Under the plan, LENDER PARTICIPATION IS VOLUNTARY, NOT REQUIRED.

The loan amount, however, must not exceed current Fannie Mae or Freddie Mac loan limits, which are $417,000, but as mentioned earlier potentially up to $729,750 in certain high-cost areas. **UNLIKE THE REFINANCING PROGRAM, THE LOANS DO NOT HAVE TO BE OWNED OR INSURED BY FANNIE OR FREDDIE. ONLY PRIMARY LOANS MAY BE MODIFIED.**

The program also includes a new provision to eliminate borrowers' second mortgages. Investors in those mortgages, who at times have blocked modifications because they didn't benefit from the adjustments, will receive incentives to eliminate those claims. Servicers that get second-mortgage holders to participate will receive an additional $250.

To participate in the loan modification plan, borrowers must:

- have obtained their mortgage before Jan. 1, 2009;
- have a primary mortgage of less than the maximum $729,500 (depending on the county)
- live in the property;
- fully document their income by providing tax returns and pay stubs;
- sign a statement of financial hardship
- go for counseling if their total household debt - including auto loans, credit cards and alimony - totals more than 55% of their income.

The modification program will be in effect until the end of 2012, but loans can only be adjusted once.

But, analysts noted that lenders or the mortgage-servicing companies that administered the loan, would still have the last word on whether to make the concessions. If a lender decides that the cost of the concessions is higher than the cost of foreclosing, even with the government subsidies, then a borrower would probably still lose the property.

A major limitation of this homeowner bailout plan involves second mortgages. To avoid the need for a down payment, or to minimize the down payment, millions of people bought

homes with piggy-back mortgages that were coupled with first mortgages. Administration officials said that their plan to help homeowners facing foreclosure did not target second mortgages because the seconds were often made by a different lender than the holder of the first which could greatly complicate the negotiations of a loan modification.

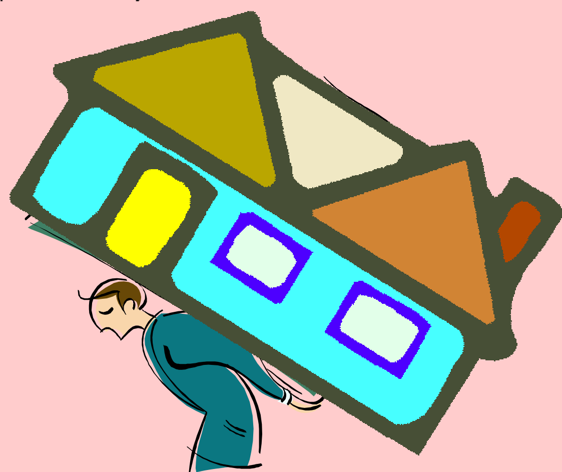
Since the focus of this initiative is on helping families and neighborhoods, investment properties do not qualify.

THE PURCHASE INITIATIVE OF MORTGAGES AND MBS

The third portion of the plan is to increase the credit available for mortgages in general by having Fannie Mae and Freddie Mac step up their purchases of mortgages and mortgage-backed securities (MBS). As mentioned in Current Events, the Federal Reserve announced it would buy an additional $750 billion in mortgage-backed securities, this year.

SHORTCOMINGS OF THE HASP PLAN

As I see it there are two major flaws in the Obama plan. One is that like the wholly ineffectual Hope for Homeowners Plan (backed by the Bush administration) lender participation was voluntary, not required. As a consequence, even though it offers some incentives to lenders (which the Bush plan did not) it is apt to be only



marginally effective. The other flaw and this I believe to be its major shortcoming is that it does too little to write down principal far enough so that each homeowner will have equity in his house and thus an incentive to pay and not default again down the line.

The reason that principal reduction is so crucial for the plan's success is because of the high degree of correlation between foreclosure rates and the absence of homeownership equity.

Despite all the job losses and economic uncertainty, almost all owners with real equity in their homes, are finding a way to pay off their loans. It is those with homes worth less than their loans who are defaulting at significantly higher rates than those who have an equity stake in their home. These people are not irresponsible—though all too often they are characterized as such. They are defaulting because it is the economically prudent thing to do.

Consider the case of a responsible couple who bought a home they could afford for $500,000 in 2006, putting 20% down ($100,000) at the time of the purchase. But, because of neighborhood foreclosures their house has declined in value to the point that it would appraise for or fetch only $300,000 on the open market. Today, they have no equity in their home but they've been paying their mortgage each month, about $40,000 a year at a 7.5% interest rate including principal, interest, taxes and insurance. But the interest rate is not the problem. The real problem is that the couple no longer "owns" this house in any meaningful sense of the word. They are, in effect, over-leveraged renters.

Selling it isn't an option; that would just leave them $100,000 in the hole. This couple could rent a comparable home for $24,000 a year, 40% less than their current mortgage payments. Walking away from their home would adversely impact their credit rating and disrupt their lives, but pouring good money after bad on a home they do not really own is costlier still.

The HASP strategy— which involves reducing their interest rate for five years and giving them, at most, $5,000 for principal reduction over five years—will still leave them paying $80,000 more over 5 years than it would cost to rent. After HASP has run its course, the couple will still not "own" their home. The home will have to appreciate 31.6% from its present value before the couple has a dime's worth of equity in the property.

But, if writing down principal is such a good idea, why aren't banks and servicers (the companies that manage the pools of mortgages that have been turned into investment vehicles) doing it now? Many banks are not marking their mortgages down to the foreclosure values the market foresees, hoping instead that we taxpayers will buy out mortgages at near their original inflated value—another government bailout. Reducing principal would force them to take an immediate markdown, but a smaller one. The servicers, meanwhile, are afraid that bondholders, their clients, will sue them if they write down principal—a real prospect because the contracts that allow servicers to modify securitized mortgages put restrictions on the kinds and number of modifications they may make.

Moreover, making sound modification decisions is costly; servicers don't want to spend the money and lack the personnel to do the job.
Beyond all that, the servicers have a conflict that all but guarantees they will not modify loans to maximize bondholder value. Once a homeowner is in default, the servicer must advance that homeowner's monthly payments to the bondholders, getting repaid itself only when the house is sold or the loan is modified. So, cash-strapped servicers want to foreclose prematurely or do a quick-and-dirty modification (without due diligence and without considering principal reduction) to get their money back fast.

I know that there are many who will be outraged at the idea that their neighbors might get a break, while they, ever so much more responsible, get nothing. The outraged folks need to be reminded that benefit, too, for it is not just their home values and their neighborhoods that will deteriorate if they resist the notion of their neighbors getting relief; it is their tax dollars and that of their children's that will be needed to make up for the plummeting value of those toxic assets held by banks, which we taxpayers now guarantee and may soon own outright. It is their job that will be at stake when their neighbors can no longer afford to buy goods and services, causing more companies to cut jobs. So it is critical to act responsibly, not just for one's own sake but for the welfare and future prosperity of our communities.

STIMULUS PLAN – TAXCREDIT FOR HOMEBUYERS

The $787 billion Stimulus Package that President Obama signed on February 17th of this year contains a major benefit for new homebuyers. According to the plan, first-time homebuyers who purchase homes from the start of the year until the end of November 2009 may be eligible for the lower of $8,000 or 10% of the value of the home tax credit.

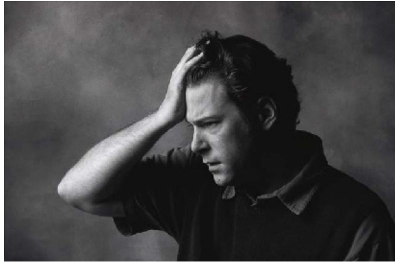
The benefit of a tax credit is that it's a dollar-for-dollar tax reduction, rather than a reduction in a tax liability that would only save you $1,000 to $1,500 when all was said and done. So, if you were to owe $8,000 in income taxes and would qualify for the $8,000 tax credit, you would owe nothing. Better still, the tax credit is refundable, which means you can receive a check for the credit even if you have little income tax liability. For example, if you're liable for $4,000 in income tax, you can offset that $4,000 with half of the tax credit... and still receive a check for the remaining $4,000! The tax credit starts phasing out for couples with incomes above $150,000 and single filers with incomes above $75,000.

The tax credit is applicable to any home that will be used as a principal residence. Based on that guideline, qualifying "homes" include single-family detached homes, as well as attached homes such as townhouses and condominiums. In addition, manufactured or homes and houseboats used for principle residence also qualify. Buyers will have to repay the credit if they sell their homes within three years.

SPECIAL OF THE MONTH:

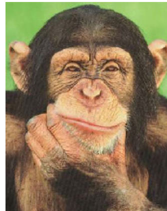
The conforming 5/1 ARM and 5/1 Interest Only programs both at 4.25% are the lowest payment and rate options, again, this month.

CALIFORNIA HOME PRICES DECLINE 41% ON FORECLOSURES



California home prices dropped 41 percent for February from a year earlier, more than double the U.S. decline, as surging foreclosures drove down values, according to the California Association of Realtors (CAR). Foreclosures accounted for 58 percent of existing California home sales in February, compared with 33 percent a year earlier, according to San Diego-based MDA DataQuick.

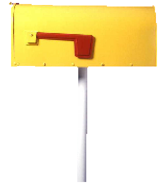
A FINAL THOUGHT



There has been much inveighing this past month about the bonuses that certain executives at AIG received for 2008. Granted, $165 million is a lot of money, but let's put it into some perspective—it's 1/1000th of the $183 BILLION that the U.S. Treasury gave to AIG as a "pass-through" to its counterparties. For over six months, the public media and Congressmen have been trying to find out just where this money went. Bloomberg brought a lawsuit to find out, only to be met with a wall of silence. On March 15, the government finally released the details. They were, indeed, highly embarrassing. Heading the list as the largest recipient was Mr. Paulson's own firm, Goldman Sachs. It was owed $13 billion in counterparty claims. So here's the picture that's emerged: last September, Treasury Secretary Paulson, drew up a 3-page memo outlining his bailout proposal. The plan specified that whatever he and other Treasury officials did (thus including his subordinates, also from Goldman Sachs), could not be challenged legally or undone, much less prosecuted. This condition enraged Congress, which rejected the bailout in its first incarnation.

It now looks as if Mr. Paulson had good reason to put in a fatal legal clause blocking any "clawback" of funds given by the Treasury to AIG's counterparties. This is where public outrage should be focused.

MORTY'S MAILBAG



There were no letters in the mailbag this month.

Recipients of the newsletter are invited to AskMorty 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 sales manager and an operations manager went bear hunting. While the operation manager stayed in the cabin, the sales manager went out looking for a bear.

He soon found a huge bear, shot at it but only wounded it. The enraged bear charged toward the sales manager, who started running for the cabin as fast as he could. He ran pretty fast but the bear was just a little faster and gained on him with every step. Just as he reached the open cabin door, he tripped and fell flat.

Too close behind to stop, the bear jumped over him and went rolling into the cabin.

The sales manager jumped up, closed the cabin door and yelled to his friend inside, "you skin this one while I go and get another!"

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