

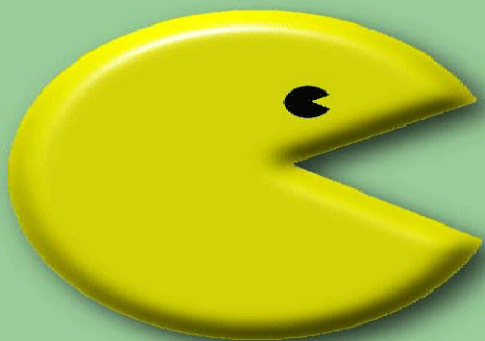
May 2009

mortgagestraightTalk.com

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

Fax: 760-639-0785

Rod@MortgageStraightTalk.com



'MORE vs. LESS' AND THE DESIRE FOR GOOD NEWS

Mies van der Rohe, the German architect, is credited with the aphorism that "Sometimes, less is more". Although I'm in agreement, philosophically, it's often not so easy to put into practice. A couple of realtors (one of each gender) have suggested that my newsletters could be improved if they were simpler, shorter, less quantitative and less fact-laden so as to better engage distaff readership. While my aim has been to explain real estate finance as succinctly and clearly as I know how, the concepts to be conveyed do not always lend themselves to easy-as-pie explanations. Although I have resisted "dumbing down" the newsletter, at the same I have tried to write for the lay reader. Nevertheless, beginning in 2010, I'm going to revamp the format and shorten the length of the newsletter to make it (hopefully) more reader friendly to both sexes.



The other recent criticism I've gotten from realtors is that the newsletter has been too downbeat, this past year. Believe me, it weighs on my mind, too, and I addressed this back in October 2008. I understand that anyone who works in a sales capacity needs to have a positive attitude to succeed in their profession. I get this. (After all, I am in sales, too—some of you may be aware of my motto: I sell *MONEY AND SERVICE*). But the fact of the matter is that we are in the longest recession since the Great Depression and my suggesting otherwise would be disingenuous. For example, stating that "it's always a good time to buy real estate", amid falling prices would be dishonest. To represent reality as something other than what it is, does a disservice to the readership and undermines my credibility.

CURRENT EVENTS



4/1-4/3 Wednesday, records show that sales plunged 41% at Ford Motor in March from a year ago, as the healthiest Detroit automaker kicked off what is expected to be another round of brutal U.S. sales reports for the auto industry. Stocks rallied Thursday after the Financial Accounting Standards Board (FASB), agreed to ease the rules regarding "mark-to-market" accounting standards to give banks greater leeway in how they value bad assets. Stocks straddled their Friday opening despite the Labor Dept.'s report that unemployment hit 8.5%.



4/6-4/10 After a four-week run, the Dow made a modest retreat, Monday. As GM struggled to meet the government's June 1 restructuring deadline, Wall Street continued to pull back after a four-week advance, amid on-going concerns about the financial and automotive sectors. The Federal Reserve pushed back its recovery forecast to say that it expected the economy to be flat in the second half

of 2009 and grow slowly next year. At the same time, it agreed to buy up to \$300 billion of longer-term Treasury notes over the next six months, and also announced plans to buy an additional \$750 billion in mortgage-backed securities. Stocks rallied Thursday, ending a holiday-shortened week on a high note after Wells Fargo forecast a nearly \$3 billion quarterly profit, adding to hopes that the banking sector is stabilizing.

4/13-4/17 Wall Street retreated Monday

after a five-week run as investors scrutinized first quarter earnings reports and entertained a possible GM bankruptcy. Stocks slumped for a second straight day, Tuesday, as a weaker-than-expected March retail sales report gave investors pause. Wholesale prices also fell as evidenced by a 1.2% decline in the Producer Price Index. According to the Federal Reserve, while U.S. economic activity continued to decline, it noted a moderation in the pace of decline, and several of the 12 district banks saw signs that activity in some sectors was stabilizing, albeit at a low level. A surprise plunge in the jobless weekly jobless claims propelled the Dow to nearly triple digit gains, Thursday. Friday, General Motors' CEO, Fritz Henderson, said GM will announce more job cuts and plant closing plans in the coming weeks.



4-20-4/24 Nothing goes up forever: after 6 weeks of mostly ups, the Dow "adjusted" Monday with a 289-point correction, downward. Tuesday, the market enjoyed a "dead cat bounce" following Monday's plunge which came on the heels of stocks surging for many of the wrong reasons during the past month and a half. Intraday market volatility seems to have returned to the market brought about in large part from confusion about the bank stress tests. One-hundred point swings in either direction in the span of 30 minutes to an hour were the norm, Wednesday. It was more of the same on Thursday, as a weak housing market report along with some better-than-expected corporate quarterly results from various companies caused the Dow Jones Industrial Average to swerve up and down like the recorder on polygraph (lie detector) test. Friday was a good news, bad news, good news day. The good was that Ford lost less than expected in Q1, the bad was that it was still \$1.4 billion, the good was that it sparked a triple-digit rally in the Dow.

4/27-5/1 Over the weekend,

Chrysler won some key concessions from the UAW in its race to hammer out a deal with FIAT by Thursday and avoid filing for Chapter 11 bankruptcy protection. Meanwhile, General Motors announced it will eliminate Pontiac from its brands platform and has until June 1 to complete a broad restructuring to avoid bankruptcy.

The Obama administration said Tuesday it is expanding its foreclosure prevention program to cover second mortgages and servicers must offer eligible borrowers principal reduction under Hope for Homeowners. Stocks gained 169 points Wednesday after the Federal Reserve, as expected, agreed to keep the Fed Funds rate where they were while also issuing a slightly more upbeat economic outlook. Chrysler filed for bankruptcy, Thursday, even though a deal was reached to combine the company with Fiat in



order to allow Chrysler to remain in business. Various economic indicators both short and long-term indicate that the economy is in recovery mode. The Institute for Supply Management's manufacturing index rose as did the Consumer Sentiment Index.

RATE SUMMARY: This past month, rates have bounced around a bit but remain about where there were in March.

The biggest change is in the 5/1, dropping from 4.625% to an even 4.0%, as is also the case for the 5/1 interest only program. The high balance conforming fixeds (15 & 30 yr.) came down about an 1/8th over the past 30 days. As for the Jumbos (above \$697,500) the 3/8th to half-point bumps in rates have been more due to a change in lender than an overall increase in these programs.

FOR CURRENT INTEREST RATES FOR 16 OF THE MOST REQUESTED PROGRAMS GO TO: www.mortgagestraighttalk.com Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday. Be patient: it's slow loading this month because we're resolving issues with download speeds.



Only two lender casualties were racked up this month which would suggest that perhaps the economy is entering a turn around mode. This brings the running total to 345 mortgage lenders that have "imploded" since the beginning of 2007,



meaning that they have halted major operations, filed for bankruptcy or become a "fire sale" acquisition of another lender.

THIS ISSUE'S TOPIC: LETTERS OF EXPLANATION



Letters of Explanation or "LOEs" as they're known in the business (mortgage lending, like the military, has an acronym for just about everything) are generally written by the loan officer or mortgage broker in a transaction to explain or account for some variance that may not be apparent to the lender's underwriter.

The most basic and most under-utilized LOE is a cover letter to accompany the loan package. A few (but very few) brokers and loan officers routinely write cover letters when submitting a loan for processing and underwriting. (The reason that some mortgage brokers become discouraged from writing cover letters is because some underwriters or their assistants (loan coordinators) never bother to read them or simply tear into a file and scatter its carefully packaged contents among various loan personnel and then request docs that were already included).

A LOE's purpose is to expeditiously facilitate the underwriting and approval process. Accordingly, a good letter of explanation briefly details essentials such as the LTV, the borrower(s) FICO scores, while simultaneously answering questions. Is the proposed loan a refinance or a purchase? Is it a rate and term (refi) or is there cash out involved? Is it a full-doc loan or a stated income one? Is the desired loan program a conventional loan, an FHA, a VA or something else?

The inclusion of a cover letter also bespeaks a certain care and organization that is often sadly lacking with loan submissions. Not surprisingly, sloppy files get kicked back to mortgage brokers or loan officers and/or go to the bottom of the underwriting pile and it is also a major reason why loans do not close more quickly.

The majority of LOEs, though, are written to make a case for approving a loan when an exception to the normal guidelines is being requested or to point out compensating factors that may exist. Equally important is that if the broker is not clear on something or doesn't know when a document will be forthcoming it is vital to inform lenders of this as well—no one appreciates being kept in the dark—particularly underwriters.



The LOE, however, is not solely the province of the loan officer or mortgage broker: after all who knows better what the situation is (was) than the actual party. A letter which describes or explains a specific situation, document or service may be written by a mortgage applicant's employer, family member, creditor, attorney, accountant, or the borrower themselves, depending on what the letter explains. The key to writing an effective letter of explanation is to understand what the underwriter wants to see. A request for a letter of explanation is made when something is seen by the underwriter of the loan as being an impediment to approving the refinancing or purchasing a home under the terms of one's application.

If you are able to determine what the condition is that the underwriter is in doubt about you stand a much better chance of effectively composing a useful letter. Personal appeals rarely move underwriters, as most of them are sufficiently motivated by the financial incentives to approve as many good loans as possible. What they want is something that plausibly explains a situation which would cause them to otherwise hold up approval. So, for example, if you are asked to explain the purpose of increasing the loan amount for pulling cash out, it is crucial to recall what you may have stated on your 1003 (loan application) so as to not contradict yourself. As important as understanding what an underwriter wants to see is recognizing what they don't want to see: they want to see that you are putting the money to good use, and that

more than anything else, you are NOT using this money to go out and get another loan. The cardinal sin of borrowing is chaining debt. Knowing this, you can write a good, honest letter of explanation, which should be short and to the point, and clear the "condition" for loan approval.



The most commonly written letters of explanation revolve around explaining minor derogatory or detrimental consumer credit issues, for example late payments on credit cards or installment loans, including student loans. Collections and late payments which a borrower has contested or disputes with creditors and credit bureaus may also be a reason with accompanying correspondence may help one in removing these items from your credit report.

Letters of explanation may be requested for a variety of reasons, however, the best policy is always to ask your refinancing consultant or analyst to explain exactly what a question means, so you can best explain the answer. A carefully written Letter of Explanation can go a long way toward getting a loan approved. What follows are some commonplace examples of requests for Letters of Explanation and satisfactory supporting documentation.

Credit Adjustments, collections, multiple late payments, loss of income, or any major or sudden changes to your financial situation will require explanation and supporting documentation. A LOE is generally mandatory if your credit history contains a bankruptcy, foreclosure or judgment.

Divorce based credit issues can be documented with either divorce decree or separation agreement, court ordered documents for child support, tax documents for most recent year filing jointly, paperwork pertaining



to arrearages in child support, and printout from domestic relations court showing either satisfactory child payment history or arrearages.

Cash Out (and purpose).

In refinance transactions, you may be asked to explain your reasons for refinancing, the purpose of which is to pass a "benefit to the borrower test" required in many states, apparently to protect you from yourself. In these cases, a letter of explanation should prove a net tangible benefit to you, the borrower.



Business Expenses. Borrowers who are business owners and incur business related expenses that show up on their credit reports under their own name, should write letters of explanation showing that these expenses are reimbursements in order to have them removed from personal debt to income ratio (DIR) calculations. Examples such as personally guaranteed credit cards, car leases and loans can be supported by cancelled checks or payment receipts.

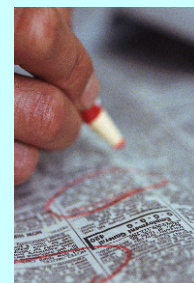
Business Failure is best illustrated with tax returns for the most recent year or proof that the borrower is no longer self employed (i.e. current pay stub from employer).

Real Estate Owned or Additional Rent. If you have multiple properties, and need to prove that one is your primary residence, a letter explaining that you reside at the property in question and spend more than half the year there, or otherwise meet the legal tests for residency, would be beneficial.

Paperless Bank Statements. Some lenders will not accept on-line bank statements because of the relative ease of doctoring on-line statements. Because more and more people are now banking on-line, this rule is being relaxed, somewhat. Yet,

some will still only accept bank statements with the bank's log or letterhead clearly affixed to the statement. If that's not available, one solution is to provide a Verification of Funds or Verification of Deposit.

Job Loss claims can be supported with layoff notice, Unemployment Office records, and other proofs of dismissal.



Injury Resulting in Inability to Work can be shown with proof of Workman's Compensation and letters from doctor or employer about the injury.

Spousal Abuse can be documented with police reports, medical records, and Protection from Abuse orders from the court.

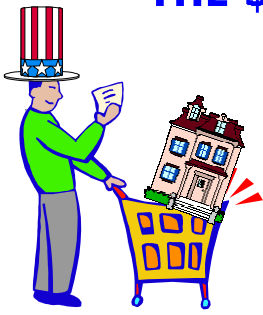
Financing. Is there a non-occupying co-borrower? Typically, this is requested for FHAs where non-occupant co-borrowers are allowed. A letter indicating one's residency and/or relationship to the primary borrower is in most cases all that will be required.

Property Issues. Is there pending or outstanding litigation with the condo builder or the Home Owners Association. A statement from either entity affirming that there is none should suffice.



One caveat: Give the underwriter only what they need to know. Some borrowers and Loan Officers (LOs) take the same approach that they did when they took essay exams and believed that sheer verbiage was a worthy substitute for quality and coherence. It is still not so.

THE \$750 BILLION COMMITMENT



BROKER, NOT THE RATE.

D-I-Yers, on the other hand, will have to keep at it every day and may still miss the lows because rates often change intraday.

(For a more complete explanation of this read "What Most of You Don't Know about \$ and Mortgages" go to:

<http://www.mortgagestraighttalk.com/pages/tpnewpage.htm>)

Furthermore, one may need to keep track of details like buy down points as well as 15 other factors on a day to day basis that are apt affect loan pricing and the interest rate.

The Fed has committed to buying \$750 billion in mortgage backed securities and mortgages. Furthermore, Fannie and Freddie are willing to refinance up to 105% of a home owners 1st mortgage, provided it is owned by Fannie Mae or Freddie Mac. The government is buying Fannie Mae and Freddie Mac debt to force down yields (interest rates).

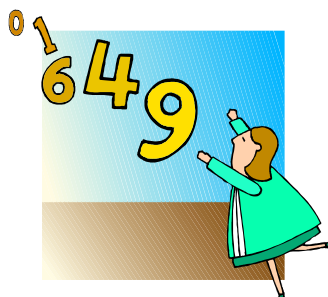
We are seeing the first of the Homeownership Affordability and Stability Plan (HASP) pricing that I discussed in last month's newsletter. What follows is a brief recap of that article's eligibility requirements in bullet-point format:

- Owner occupancy required (no income property qualifies)
- The loan on your property is owned or securitized by Fannie Mae or Freddie Mac
- At the time you apply you are current on your mortgage payments (current means that you haven't been more than 30 days late on your mortgage payment in the last 12 months or, if you have had the loan for less than 12 months, you have never missed a payment).
- The amount that is refinanciable is up to 105% of your current 1st mortgage.
- You have sufficient income to support the new mortgage payments.
- The refinance improves the long term affordability or stability of your loan.

For those with good credit who meet the required conditions, now is a great time to take advantage of these historically low rates, which brings me to my next topic....

WANT TO GET A GREAT RATE AND SAVE TIME? DON'T SHOP FOR A RATE.

Long time readers know the answer to this because I have harped on it ad nauseam: the best way to get (or lock in) a great rate is to work with a knowledgeable broker who understands the business. This person can work for you (rather than your attempting to Do-It-Yourself) and will be willing to lock in a rate for you on dips. In other words, SHOP THE



MORTY'S MAILBAG



Q. What are banks looking for when they ask about your assets?

A. The easy answer is The More, The Better. Lenders examine a borrower's assets to analyze a borrower's eligibility in two areas:

1. Confirm that the applicant has sufficient assets to meet closing costs and program guidelines.
2. Verify that such assets are acceptable.

The accumulation of assets demonstrates how well the borrower has used his or her

income; while the record of liabilities shows how well the borrower has handled debt. A negative net worth generally means that the applicant is over-leveraged (over-borrowed) and could result in rejection.

Mortgage loan applicants do not have to disclose all assets, just enough to qualify. The applicant must show sufficiency in two areas:

1. Liquid Assets. The borrower must verify sufficient liquid (cash or easily cashed) assets for any down payment, closing costs, prepaid expenses, and reserve requirements.

The following liquid assets are acceptable in determining the applicant's qualification:

- Cash on deposit
- Cash deposits toward purchase
- Cash gift
- Secured loan proceeds
- Sale of assets
- Life insurance policies
- Stocks, bonds and money market funds
- Real estate commissions
- Seller and lender subsidies
- Rent credit
- Pension, IRA and 401k accounts
- Bonus income



2. Hard Assets. The borrower should demonstrate positive net worth. For most borrowers, hard assets must be counted to establish positive net worth. The accumulation of assets demonstrates how well the borrower has used his or her income; while the record of liabilities shows how well the borrower has handled debt. A negative net worth generally means that the applicant is over-leveraged (over-borrowed) and could result in rejection. The prospective borrower must have enough verified liquid assets to cover the loan's down payment, closing costs and prepaid items without resorting to borrowed funds as well as additional reserves for the first payments due. These

four expenses require cash or easily cashable assets because they are paid at the closing or in the initial months.

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 be 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

You might be a sales person if....



- you refer to dating as test marketing.
- when you bought a new house you called your fellow alumni and offered to name a room after them, if they'll help with the down payment.
- your favorite stories begin "Bob Jones, VP of marketing, sat at his desk and stared out a window..."
- when you give your son his birthday present, you must say that is has an "unprecedented performance".

If you'd care to share one that you've heard, please email it to me at

Rod@mortgagestraighttalk.com

NEXT ISSUE'S TOPIC: VA LOANS

