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TIME IS OF THE ESSENCE

As most everyone knows, the Fed has been buying agency mortgage-backed securities (so far they've bought about $370 billion) to stimulate real estate and stabilize the housing market. The Federal Reserve announced that it would begin buying long-term Treasuries to push rates down. In so doing, it reduced interest rates to historic lows, making home purchases and refinancing ultra-attractive. On March 18th, when the Fed unveiled its Treasury purchase plan, the 10-year yield was about 2.50%. In the interim, Treasury bonds and notes have fallen sharply, pushing yields on these securities much higher. (Bond prices and yields move in opposite directions.) As of May 28th, the yield on the benchmark U.S. 10-Year Treasury note hit a year-to-date high of 3.73%. Because the Fed is committed to buying up to another $380 billion mortgages and mortgage-backed securities, mortgage rates have stayed artificially low and were predicted to do so for the near term. But recent developments suggest that this may be untenable.

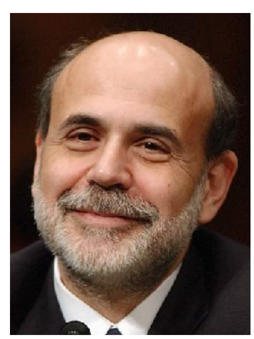
In the past two months the stock market has rallied strongly, in part because corporate earnings were not as bad as expected, but also because the stock market is a leading indicator of the direction of the economy. This is good news for investors in equities, yet most economists put more weight on the bond market's view of the economy. Over the past two months, we have seen a steepening of the Treasury yield curve which suggests the probability of economic recovery in the second half of 2009 is quite high. Changes in the steepness of the Treasury yield curve is one of the best and most consistent leading economic indicators of the economy.

In a week's time (May 21-28) mortgage bonds dropped a staggering 363 basis points causing yields to rise significantly. The reason that markets care about bond yields is that lending rates move in tandem with Treasury yields. In particular, the 30-year fixed mortgage rate tracks the benchmark 10-year Treasury yield. During the afore-mentioned week, the benchmark yield spiked to levels not seen since November 2008, which in turn impacted mortgage rates. Rising mortgage rates threaten the housing market's recovery. In an effort to fight higher yields, the Federal Reserve has embarked on a campaign of "quantitative easing," buying back $370 billion of its own debt. But some analysts believe that the Fed's buyback campaign is not nearly big enough to combat the expanding debt load. The Fed will be purchasing more debt during the first week in June.

Through no fault of its own, the Fed has been less successful in stabilizing home prices. Most home prices are continuing to drop. Unemployment is a lagging economic indicator. And, as it relates to real estate, job loss is (and will continue to be) the major cause of foreclosures. Foreclosures and short sales drive down housing prices and erode the equity in neighboring homes. Unemployment, currently at 8.9%, is expected to crest at around 10%. As a result, overall home prices are (and will continue to) fall into next year with a few notable exceptions. Certain areas (coastal) and price tiers (under $417,000) have seen prices firming considerably. Nevertheless, the ability to refinance for so many homeowners will hinge on their property's appraised value. For the reasons, I've laid out "time is of the essence". **Bottom line:** Long-term rates are under pressure. The good news: It's a sign of an improving economy. The bad news: housing prices are still falling in most areas and unless you have a lot of equity in your property, your opportunity to refinance is dwindling.

THE MONTH IN REVIEW

5/4-5/8 Wall Street reacted to a better-than-expected housing market report intensifying hopes that the economy is closer to stabilizing. The Dow gained 214 points, Monday, to end at its highest point since January 13. Federal Reserve Chairman Ben Bernanke said Tuesday that



the U.S. economy is stabilizing and will start to rebound later this year, but the recovery process will be slow and choppy. The pace of U.S. job losses may be slowing, according to a report released Wednesday by Automatic Data Processing, a payroll-processing firm. Ten of the nation's

19 largest banks will need to raise a total of $74.6 billion in capital, federal officials announced Thursday, bringing an end to relentless speculation about how much more money the nation's leading banks would need to withstand the recession. Despite unemployment hitting 8.9%, a 25-year high, the apparent slowing in the rate of job losses propelled the market to triple-digit gains, Friday.

5/11-5/15 With little economic news to focus on Monday, investors opted to back off and the market retreated after a two-month rally. General Motors Corp. stock plunged more than 22% to a 76-year low Tuesday, a day after a group of GM executives disclosed they had sold shares in the struggling automaker. Stocks took a 184-point drubbing Wednesday, falling for a third straight session amid weaker-than-expected retail sales reports. Thursday, GM agreed to make early payments to suppliers, signifying that a bankruptcy filing is imminent, along with the closing of 1,100 dealerships. Chrysler is expected to shutter 789 dealerships, also. After rising for roughly two months, stocks slumped, Friday, as worse-than-expected reports on retail sales, housing and employment this week have raised worries that the market has gotten ahead of itself.

5/18-5/22 The financial press indulging in a bit of uncharacteristic humor, Monday, headlined that “Stocks get high on Lowe’s”, referencing the home improvement retailer’s upbeat profit forecast that contributed to the Dow gaining 235 points. With monthly housing starts falling by nearly 13% and building permits by 3%, the decline in housing data, Tuesday, raised doubts about the economy’s recovery. Wednesday, the Fed's latest forecasts for the U.S. economy were grimmer than originally projected, with an expectation for unemployment to rise somewhere to between 9.2% and 9.6% this year. The central bank now also predicts a sharper decline in GDP than it had forecast in January. Stocks fell sharply Thursday after the central bank's dour outlook the previous day called into question the economic optimism that had lifted the market over the last few months. Friday was an up/down day: oil was up (above $60), the market was down slightly, the dollar was up slightly, and unemployment was up in about as many states as it was down.

5/26-5/29 Stocks soared Tuesday, with the Dow gaining more than 196 points, after a report showed consumer confidence rose in May to its highest level in 8 months. Stocks plummeted some 173 points Wednesday, as bond yields spiked to a 6 month high from jitters over the looming bankruptcy of General Motors. Mortgage bonds had their worst one-day performance since October, losing an astounding 206 bps. The falling bond prices pushed up yields on mortgage-backed securities (interest rates). According to the Mortgage Bankers Association, about 12.07% of all mortgages were delinquent or in foreclosure in the first three months of the year 2009.

RATE SUMMARY: The last week of May saw an upsurge in interest rates which began to abate shortly by week’s end. Over the course of the month, rates worsened by only an 1/8th or so. Government loan programs like FHAs and VAs bore the brunt of the increase as FHAs jumped upward between a ¼ and a ½ percent and the range of increase in VAs was from 0.25% to 0.375% higher than the previous month’s. Because of developments in the bond market, rates which have been remarkably stable for the past few months, have begun to exhibit heightened volatility.

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.

Only two more lending casualties were racked up this month. This brings the running total to 347 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.

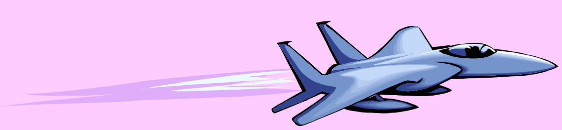
THIS ISSUE'S TOPIC: VA LOANS— THE VETERAN'S BEST FRIEND

A VA loan is unique in that it is currently the only loan program by which a borrower (eligible veteran) can obtain 100% financing, moreover at fixed rate of 5.0% on a 30 yr. term (for conforming amounts of $417,000 or less). At present, the maximum purchase money loan amount with 100% financing is now $697,500.

The mechanics of obtaining a VA loan are relatively simple. The VA acts, in effect, as a guarantor, co-signing the loan for an eligible veteran. Because the U.S. Government guarantees 25% of a veteran's loan, from the lender's point of view the borrower is in effect putting up a 25% down payment at the time of purchase, thus no cash is required of the borrower to get the mortgage. While the Department of Veteran's Affairs (VA) guarantees a portion of the loan (in the event that the borrower defaults) it does not make VA loans, private parties such as banks, savings & loans, or mortgage companies make the actual loans.

THE MAXIMUM VA INSURABLE LOAN

VA loans do not have a maximum dollar amount, but Ginnie Mae (Government National Mortgage Association) the government sponsored enterprise that provides funding for VA loans requires that its exposure be limited to 75%. Hence, for loans above $697,500 the veteran must contribute 25% of the difference between the sales price and $697,500. To determine a veteran's maximum loan, one simply subtracts $697,500 from the sales price and divide the difference by 4 to determine the down payment required. Then, subtract the down payment from the sales price to arrive at the maximum insurable loan amount. Thus, if the sales price is $797,500 the veteran must put $25,000 (797,500-697,500 = 100,000/4 = $25,000). In this example, the veteran could obtain a loan of $772,500 ($797,500- $25,000 down payment from the borrower) with a 97% LTV. Although VA loans do not have a maximum dollar amount, the secondary market has maximum limits so different lenders may quote different maximum limits in different areas. The program is, however, restricted to owner occupied purchases by eligible veterans.

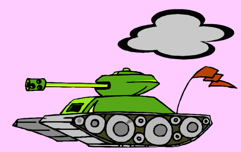


WHO IS ELIGIBLE FOR A VA LOAN?

Approximately a quarter of the nation's population is eligible for VA benefits and services because they are veterans, family members or survivors of veterans. There are 24 million veterans currently. Among those eligible are individuals who are or have:

- Active Duty Military (now only 6 months of active duty required)
- Honorable Discharge
- Selected Reserves & National Guard
- Completed 6 years as Member of Active Unit
- Honorable Discharged & Retired
- Service Connected Disability
- Un-Remarried Spouse Who died while In Service
- Spouse of Service Person MIA or POW
- Discharged for Service Connected Disability

Getting a VA mortgage starts with making a call to the VA's Certificate of Eligibility Center at 888-244-6711 to secure the certificate authorizing the mortgage. The center keeps track of whether the veteran used all or part of his or her eligibility in the past. The veteran MUST have this original form to close on a new VA loan.



ENTITLEMENT BENEFIT

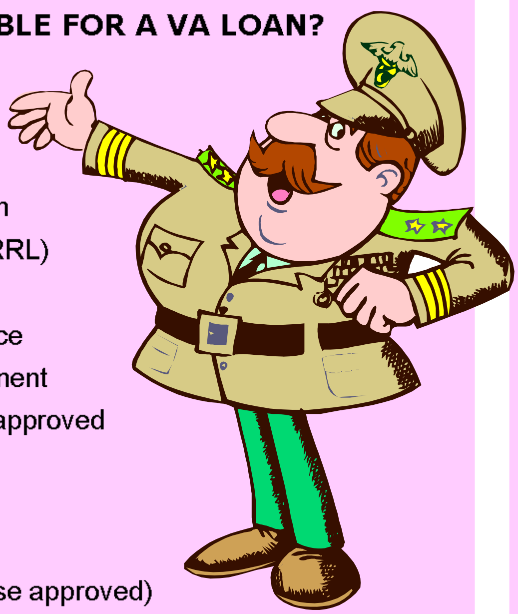
The VA Guaranty program is a kind of employee benefit program. The idea is to help veterans buy homes. The government guarantees an entitlement benefit of as much as $174,375 toward an owner-occupied purchase which is 25% of the government-sponsored enterprises' (GSE) loan limit of $697,500. Under the recently passed Housing Bill, some areas qualify for even higher government guarantee limits. The VA lending limits are the same as those used for FHA loans, but more readily accessible.

Most banks are more than willing to make these loans because of the government guarantee. Plus, VA loans are made with more lenient income and credit standards than banks are currently demanding of conventional borrowers. The amount of this benefit has increased with time as home prices have increased. The entitlement is never exhausted. It may be utilized to guaranty a loan on a veteran's home, but as soon as that home is sold and the loan is paid off the veteran has that portion of the entitlement back to use again. This is important because of the issue of partial entitlement and the potential for a veteran to have remaining entitlement even though they may still have a previous home loan guaranteed by the VA. The only way to restore eligibility is to sell the home or have the loan assumed by an eligible veteran who substitutes their eligibility for the original veteran.

BENEFITS

- No down payment (unless required by the lender or the purchase price is more than the reasonable value of the property).
- Buyer informed of reasonable value
- Negotiable interest rate
- Ability to finance the VA funding fee (plus reduced funding fees with a down payment of at least 5% and exemption for veterans receiving VA compensation)
- Seller contributions up to 6% for closing costs
- 100% of gift funds allowed
- No monthly mortgage insurance premiums
- Not limited to first time homebuyers
- Veteran can use entitlement many times
- Fixed rate assumable loan
- Right to prepay without penalty
- VA assistance to veteran borrowers in default due to temporary financial difficulty
- Manual <u>and</u> automated underwriting
- Citizenship is not required

WHAT KIND OF PROPERTIES ARE ELIGIBLE FOR A VA LOAN?



- Purchases
- Rate & term refinance
- 90% LTV cash out
- Interest Rate Reduction Refinancing Loans (IRRRL)
- Owner occupied only
- Single Family Residence
- Planned Unit Development
- Condos (need project approved and 75% sold)
- 2-4 units (75%)
- New construction
- Leased land (need lease approved)

THE FUNDING FEE

There is a small origination fee paid to the VA, which is rolled into the mortgage itself. The VA Funding Fee is not an insurance premium but a one time charge. It is tantamount to a user fee. VA allows the funding fee to be financed, or added to the base maximum loan amount up to the maximum GNMA Loan Limit, or $697,500. In addition, newly eligible borrowers specifically reservists—pay a higher premium (2.4%) than active duty (2.15%). Disabled Veterans are exempt from payment of the Funding Fee. The Funding Fee for a subsequent user is 3.3%. The Fee can be financed, paid in cash or split. It can be paid by either the veteran or the seller. If it is paid by the seller, the maximum seller contribution is limited to 6% of the purchase price.

CLOSING COSTS

There are additional benefits to using a VA loan, if you qualify. Veterans may be required to pay for the following fees: credit report, origination, discount points, the Funding Fee, recording and title insurance, all of which are typically rolled into the loan.

- Veterans can pay all reasonable & customary costs:
- 1% loan origination fee
- Reasonable Discount Points (defined as 2%)
- Title Insurance
- Appraisal

But veterans cannot pay for –

- Application fee
- Appraisal review
- Document preparation
- Escrow fee
- Sub-escrow fee
- Inspection
- Notary
- Processing fee
- Tax service fee
- Termite report fee
- Underwriting fee
- Warehouse fee
- Wire fees

The seller or the lender must pay all escrow fees and non-allowable charges. The seller may pay 4% over and above all the closing costs. <u>Note</u>: Closing costs are not considered seller contributions, so the seller can still contribute another 4% to the veteran to buy down the interest rate or pay the funding fee.

REFINANCING

VA loans may not as beneficial for those seeking to refinance, because in a "refi" the loan-to-value ratio is not 100%, but only 90%. As with conventional loans there are two types of refinances: 1) cash out and the more affordable 2) rate & term (or Interest Rate Reduction Refinances Loans IRRRLs). With a cash out refi the premium is 2.15% for first-time cash-out refinancing. But for subsequent cash-out refinances the funding fee is a stiff 3.3% and the same documentation is required as with a purchase. For IRRRLs the funding fee is a nominal 0.5%. The documentation is less rigorous, too—there is no appraisal, no credit report, no underwriting & no qualifying are required on an IRRRL. Generally, all that is needed is:

· 12 Month Payment History Current Mortgage
· Uniform Residential Loan Application
· Current Appraisal to Document Property Value has not deteriorated. This may not be required if the loan amount is not being increased over the current loan amount.
· Verification of any funds needed to complete the closing and evidence of 1 month's PITI (principal/interest/taxes/insurance) in reserve.

THE NEW LAW OF THE LAND.... WHEN IT COMES TO YOUR HOME

In the past, conflicts of interests existed between mortgage brokers and appraisers. Since mortgage brokers were responsible for ordering property appraisals, appraisers often felt obligated to "bring in" the requisite value to make the deal work, at least if they wanted any future business from the broker. Obviously, not all brokers were guilty of this, but enough lenders were defrauded and ultimately the Government Sponsored Enterprises (GSEs) like Fannie Mae and Freddie Mac that bought or guaranteed these loans ended up with a lot of paper on properties that were over-valued.

To correct this, as of May 1st, Fannie Mae and Freddie Mac Fannie Mae required that lenders institute a new appraisal system. The GSEs concluded that if mortgage brokers were precluded from ordering the appraisal, a more objective and truer valuation should result. The new rules, which go by the name Home Valuation Code of Conduct (HVCC), expressly proscribe brokers from ordering appraisals directly. Instead, they are required to go through an intermediary, an Appraisal Management Company (AMC) contracted by the lender for this express purpose. To add insult to injury, many lenders are requiring mortgage brokers to pay for the very same appraisals that they are now distanced from or face additional delays. What was once handled with a simple phone call now involves filling out information on up to 18 separate computer screens.

The HVCC applies to all conventional loans involving 1-4 unit properties that are sold to Fannie Mae or Freddie Mac. The code does not apply to loans that are insured or guaranteed by a federal agency, such as FHA or VA loans. Under the new system, the person conducting the appraisal may be new to the field—willing to work for a cut-rate fee and may not be familiar with local value trends and pricing adjustments as an appraiser with more experience.

While the intent is of the HVCC laudable, as is frequently the case with a mandate, the manner in which it is implemented often creates more problems than it solves. Chief among these are that consumers are paying 20 to 30% more for appraisals costs to compensate the AMCs. A standard appraisal that formerly went for $350 has jumped to $425. Ironically, while appraisals are costing more, appraisers are earning 30% less than before because "the long-established ones won't work for the low fees" management companies pay. After one appraiser signed up with an AMC, two consumers commented to him after he finished his appraisal, "Wow, you really charge a lot." They were each being hit with $550 appraisal fees, although he was getting just $250 through the management company. As he sees it, that leaves $300 of "slush" somewhere in the process— some going to the management company, the rest "flowing to the lender for doing absolutely nothing."

Now, appraisers either have to sign up with management companies or find other employment., One complained that he lost almost his entire customer base because mortgage brokers can no longer pick up a phone and order an appraisal from him.

The management companies argue that payments their firms receive are compensation for creating, managing and reviewing a network of thousands of individual appraisers and for the "processing and administrative" costs that have been taken off the backs of brokers and lenders. Further, they claim that they insure the ability to have a steady stream of work, training and support. In other words, appraisers can expect to make up in overall volume what they're sacrificing per assignment.

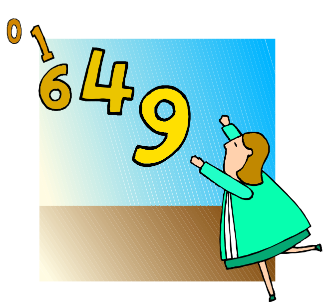
The other issue is portability. While Fannie Mae says that the appraisal may be portable, that is, it can be taken to another lender, it does not require that it be accepted by the new lender. So, lenders are saying that "portability is not available at this time." Translation: If your mortgage application is denied by one lender, you will likely be forced to pay for a second appraisal because the new lender is not apt accept the first one.

At present, mortgage brokers and consumer groups are petitioning to have the new HVCC amended.

SPECIAL(S) OF THE MONTH:

I haven't featured a jumbo product for some time, but this month, there are two worth mentioning:

1) **A Jumbo 3/1 ARM @ 3.5% (up to ($900,000 with LTV to 75%)**
2) **A 30 Yr. Fixed Rate Jumbo @ 5.8% (up to ($900,000 with LTV to 75%)**



BACK TO THE FUTURE—IT'S 2002, AGAIN

The data through March 2009 show that the slide in home prices accelerated during the first three months of 2009, plunging a record 19.1% during the quarter compared with the first three months of 2008. The 1-year change in the San Diego metro area was -22.0%. The S&P/Case-Shiller U.S. National Home Price Index is the leading measure of U.S. Home prices; it tracks the 20 largest metropolitan statistical areas in the country. The index has plummeted 32.2% from its July 2006 peak and has fallen for 32 straight months. Housing prices are now where they were in 2002. The drop is attributable to the record number of foreclosures. All 20 metro areas are still showing negative annual rates of change in average home prices with nine of the metro areas having record annual declines. Foreclosures used to be anomalies, but now, not only do these sales predominate—comprising more than 50% of all sales transactions—they are the market.

APRIL REMAINED THE 'CRUELEST MONTH' OF ALL FOR SOME

A record number of foreclosure filings took place during April. Ten states accounted for 75% of all foreclosure activity, and they fell generally into two categories: one-time bubble markets and the Rust Belt. California easily outpaced every other state with 96,560 filings. Other hard-hit former boom states were Florida, Nevada and Arizona. Despite the record numbers, bank repossessions actually fell 11% for the month, compared with March. This anomalous behavior is due to the many state moratoriums that have delayed the start of the foreclosure process delinquent loans. RealtyTrac, an online marketer of foreclosed properties predicted 3.4 million filings for the year, but a spokesman for the company said, "but we'll blow those numbers out of the water."

MORTY'S MAILBAG

Q. As interest rates have become more attractive, we attempted to refinance but were told that we couldn't because our home had been listed on the market in the previous 90 days. Why is this an issue for a lender?

A. Since the rates for some loans are the best we've seen in 4 years I understand your desire to refinance. But, generally speaking, when your home is on the market or has been on the market, it's going to be difficult to get a new mortgage–at least for a certain period of time. It's typical for ex-sellers to have to wait three to 12 months after taking their homes off the market to refinance. Some lenders have a "no days-off-market policy", but they're rare.

The reason for this is that banks regard properties that have been for sale as more risky. The people looking for these refi's are usually people in trouble, most often speculators, investors and marginal players who need to take cash out of their new loans. A home that's recently on the market and didn't sell is likely to go back on the market in a short period of time: it's a signal that the borrower won't have the loan for long, and banks prefer you to hold on to your loan. Even if that's not the case, mortgage lenders presume that if you refinance your home after a failed attempt to sell, you might still try to sell it soon, paying off the loan and thus erasing any profit the lender might have made.

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 blind man walks into a store with his seeing-eye dog. All of a sudden, he picks up the leash and begins swinging the dog over his head.

The manager runs up to the man and shouts, "What are you doing?"

The blind man replies, "Just looking around."

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

NEXT ISSUE'S TOPIC: INSURANCE