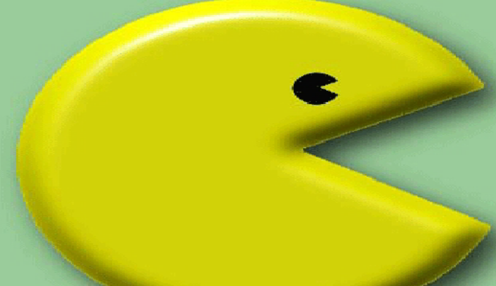

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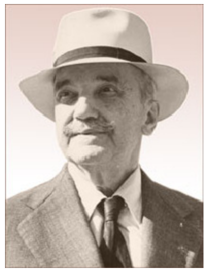
ELECTORAL AMNESIA



"Those who cannot remember the past are condemned to repeat it"
--George Santayana

In the late 60's, while this country was mired in Vietnam, a political debate raged about how to extricate ourselves from that war. The hawks declared that, above all, we must have "victory with honor" while the doves just wanted a withdrawal. Art Buchwald, the political humorist and columnist, wryly suggested a solution that accommodated both sides: "Given [he wrote] the short memory span of the most Americans, we simply declare victory, hold a celebratory parade for all the troops and march them straight from the parade route to transports to bring them home." A variant of the nation's collective amnesia appears extant, because it is mind-boggling that while the economy is still recovering from a financial crisis for which the previous administration was largely responsible, that Americans could forget that the very same people who first got us into this mess, then did everything in their power to block action to get us out, are looking to be the big winners in the mid-term elections.

Conservatives are now offering their Pledge with America as a solution, but one can't help but wonder how voters take them seriously when they say they want to cut government spending by billion of dollars but won't identify the specific defense programs, Social Security, Medicare or other services they claim they're ready to cut—let alone explain how this will make us more competitive and grow the economy. And how can you take this same group seriously that sat mutely by while the Bush administration launched two wars and a new entitlement--Medicare prescriptions drugs—none of which were funded—while cutting taxes—but is now, suddenly mad as hell about the deficit.

It took more than eight years for the previous administration's failed policies of tax cuts and minimal regulations to inflate the housing bubble that led to the financial crisis triggering the worst recession since the Depression. Although most voters were unaware of how perilously close we were to another one, the Obama administration and the Federal Reserve deserve credit for moving quickly in terms of fiscal and monetary policies to prevent the economic crash of 2008 from driving the U.S. into Depression 2.0. The scope of the stimulus, though, was far too modest, and unemployment remains unacceptably high to this day. (Though, in his defense, the size of the stimulus was probably all that was politically possible at the time). More action is clearly needed. Yet if the polls are to be believed, the public has soured on government activism, and seems poised to repudiate the actions taken and deal a severe blow to incumbents.

As with most situations there is an inescapable time-lag between cause and effect and between solution and resolution. The Crash of 1929 ushered in the Great Depression, the longest and deepest downturn in economic activity in modern history. But it was four years after the crash in 1933 that the depression was at its worst. Despite unprecedented government intervention, it took three more years, until 1936, before the economy began to recover. Even so, during this period of record deficit spending, unemployment declined only 4.8% from its peak of 24.9% in '33. Roosevelt, fearing an unbalanced budget, cut government spending in 1937 and plunged the economy into another recession that summer. The current administration's economists promised not to repeat the mistakes of 1937, when F.D.R. pulled back fiscal stimulus too soon. But by making his program too small and too short-lived, Mr. Obama did just that. The stimulus raised growth while it lasted, but it made only a small dent in unemployment—and now it's fading out.

More stimulus is desperately needed, but in the public's eyes the failure of the initial program to deliver a rapid and convincing recovery has discredited government ability to create jobs. Today, as back then, we are warned about crushing debt and runaway inflation. Our forbears were also informed that the Depression was in large part caused by excess debt and admonished and that it was impossible to fix the problem by issuing even more debt—just as we are, today.

But guess what? Those pundits were wrong, as they are today. Back then, World War II intervened and further unavoidable deficit spending created an economic boom—and the boom laid the foundation for long-run prosperity. Overall debt in the economy—public plus private—actually fell as a percentage of G.D.P., thanks to economic growth. And after the war, thanks to the improved financial position of the private sector, the economy was able to thrive without continuing deficits.

The economic moral is clear: when the economy is deeply depressed, the ordinary rules don't apply. Austerity is self-defeating: when everyone tries to pay down debt at the same time, the result is depression and deflation, and debt problems grow even worse. And conversely, it is possible — indeed, necessary—for the nation as a whole to spend its way out of debt: a temporary surge of deficit spending, on a sufficient scale, can cure problems brought on by past excesses.

But, doing this takes time, particularly when obstructionist elements are more concerned about their agenda than the nation's welfare. Americans need to remember that it takes much less time to collapse something than it does to rebuild it. So, too, with the economy, it is unrealistic to expect that eight or more years of economic missteps are going to be reversed in less than a quarter of the time.

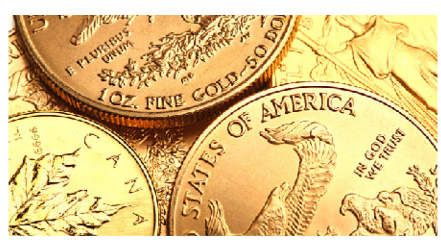
Currently, the President has a $30 billion Small Business Jobs Act bill that has been delayed for three months by partisan obstruction and a $50 billion jobs recovery plan has been similarly stalled because certain politicos place their re-election and political agendas ahead of their elected purpose—working for the common weal. Hopefully, the American electorate won't forget and/or consequently regret the ballot they cast on Nov. 2nd.

THE MONTH IN REVIEW

9/1-9/3 Stocks surged 255-points, Wednesday, as investors cheered a report showing a rebound in Chinese and U.S. manufacturing activity. **The U.S. manufacturing index hit 56.3 in August.** Any reading above 50 signals growth. **The Dow rose 127-points, Friday,** in response to a better than expected jobs report. **It ticked up to 9.6%** from 9.5% in August.

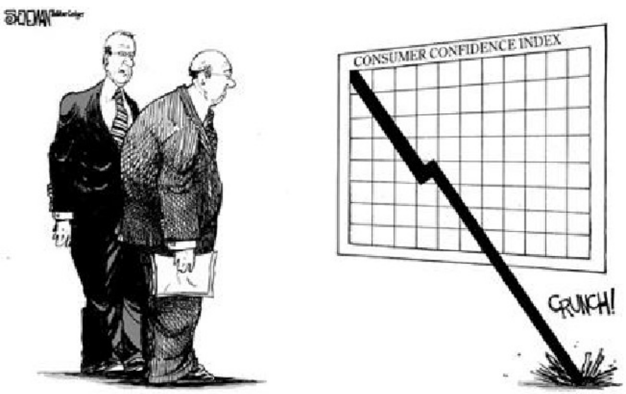
9/6-9/10 U.S. stocks fell 107 points Tuesday amid renewed worries about European banks. The Fed said that there are now **"wide-spread" signs that the economy is slowing**. The **number of jobless Americans filing for unemployment insurance fell** last week to the lowest level in nearly two months, a government report released Thursday showed. The **yield on the 10-year Treasury note rose to 2.79%** from 2.76% late Thursday.

9/13-9/17 U.S. retail sales rose 0.4% in August. The yield on the 10-year Treasury note fell to 2.68% from 2.76% late Monday. The dollar slid to a 15-year low against the yen, Tuesday. Gold hit another new high of $1,279.50/oz., Friday, continuing a week-long rally fueled by uncertainty over the global economy.



9/20-9/24 The National Bureau of Economic Research, the body officially charged with dating when economic downturns begin **declared that the Great Recession began in December 2007 and ended in June 2009,** making it the longest and deepest downturn for the U.S. economy since the Great Depression. The announcement sparked a 145-point rally on Wall St., Monday. **Housing starts hit a four-month high**, surging 10.5% to an annual rate of 598,000, the Commerce Department reported. **Building permits were also up 1.8% from July**, but down 6.7% from the same time last year. The Fed announced that while "the pace of economic recovery is likely to be modest in the near-term," it expects improvement ahead. The National Association of Realtors reported that **existing home sales rose 7.6% in August**, better than economists' predictions. But, as compared with a year earlier, sales are off 19%. **A better-than-expected report for durable goods ignited a 198-point stock rally, Friday. Gold topped $1300/oz. and silver hit a 30 yr. high.**

9/27-9/30 Prices for U.S. Treasurys rose, with the **yield on the 10-year note falling to 2.46%** from 2.53% late Monday. Bond prices and yields move in opposite directions. **The Consumer Confidence Index dropped to 48.5 in September** from a



"AT WHAT POINT DO WE STOP CALLING IT CONFIDENCE?"

downwardly revised 53.2 in August, the Conference Board reported. Any reading below 50 signals contraction. The Commerce Dept. revised **second quarter economic growth up to an annual rate of 1.7%** from a previous reading of 1.6%. The Labor Department also revised **the initial jobless claims filed for last week down 16,000** from 469,000 to 453,000.

RATE SUMMARY:

Changes were NIL, this month.

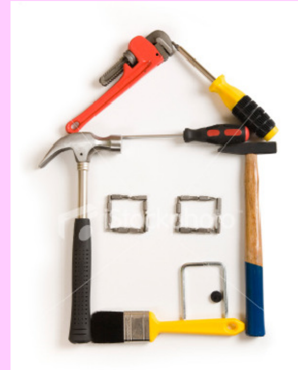
*Conventional conformings remained the SAME, except for the 5/1 I/O ARM—it fell 1/4.

*Jumbos—**NO CHANGE**.

*Governments (FHA/VA)—**LARGELY UNCHANGED.** A few programs changed modestly.

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR 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: 'WORTHWHILE' REMODELING PROJECTS



In December of '07 the topic of that month's newsletter was "Which Home Improvements Pay Back?" This time I decided to approach the matter more from a generic stand point more than a monetary one. A few years ago, you could count on getting the bulk of your money back for almost any home-improvement project you engaged in. Today, replacing a toilet seat can feel like throwing caution, and cash, to the wind. According to a study from Remodeling magazine, the average return on value for an upgrade declined from 87% in 2005 to 64% in 2009. But these strategies may help you maximize your return on your remodeling investment.

STRATEGY #1: REPAIRS GET THE BIGGEST RETURNS

We've all heard the bromide that states, "An ounce of prevention is worth a pound of cure." It is as true today, as ever. The smart money realizes that deferred maintenance needs to be "undeferred". It's still so: because while buyers might appreciate enhancements like Jacuzzis and Sub-Zeros, they won't tolerate a house with a leaky roof or antiquated plumbing. If a property is known to have issues, the majority of today's buyers won't consider it because they are worried that it may be a "money pit". And trying to keep problems a secret is not only verboten in terms of full disclosure, it is apt to be costly in other ways. When a buyers' inspection uncovers them the common practice, now, is to ask the sellers not only to pick up the tab for the repair but also to pay a penalty to compensate the buyer for the inconvenience of having work done. So the $20,000 you saved by putting off a roof repair, say, could turn into a $30,000 credit to the buyers at closing.

STRATEGY #2: REMODELING BEATS ADDING ON

McMansions have gone the way of the SUV—and large additions don't pay off either. There's been a fundamental shift toward quality over quantity. Having a large, formal living room plus an everyday family room is less desirable than having one multi-use common space. So rather than adding on, you're better off repurposing existing square footage by reconfiguring the floor plan or capturing unused basement or attic space.

Want an eat-in kitchen? Knock down the wall between the kitchen and dining room ($2,000 to $8,000, depending on whether it's load-bearing or contains plumbing). That will instantly create a large eat-in kitchen and give the whole house a more open feel -- without a huge investment to make up at resale.

STRATEGY #3: ECO-FRIENDLY UPGRADES CAN SAVE CASH

Thanks to a government program that extended and expanded tax breaks some eco-friendly improvements may pay you back long before you sell your house. You can get a federal credit for 30% of the cost of products like highly energy-efficient heating and air-conditioning systems, windows, and insulation up to $1,500 for 2009 and 2010 combined. (For details on the available tax credits, go to ase.org. Also, see dsireusa.org).

To figure out which upgrades will save you the most, do an energy audit to identify your biggest leaks. Ask your utility company if

it offers this service free (many do) or D-I-Y using the kit at energysavers.gov. By installing energy-efficient features, such as EnergyStar appliances, dual-pane glass and extra wall insulation and such, you'll see lower energy bills every month. Sealing leaks and adding insulation, including in your attic and basement, typically provide the best bang for your buck. Also, “going green” is increasingly a selling point. Most people in the market right now are first-time homebuyers in their thirties, and they've been raised to care about carbon footprints and being eco-friendly. The best way to go green is with a while-you're-at-it approach: When it's time to replace your furnace, for example, upgrading to super-efficiency might add only $500 (after tax credits), compared with standard new equipment, but it will save you—and your buyers someday--$150 or more in annual heating costs.

STRATEGY #4: TECH INFRASTRUCTURE TRUMPS COOL GADGETS

Home electronics seem like a deal, since prices have fallen about 50% over the past three years and continue to drop. Still, that doesn't change the fundamental problem with expensive built-in technology: Put in a $10,000-plus dedicated home theater today, and something better will come along tomorrow and make your system look as if it's from the Mesozoic Era. With buyers seeking any excuse to low-ball their offers, they're not going to reward you for an out-of-date system. When to refinance your home Tech infrastructure is different, however. Anytime you're opening up walls for a construction project, have cabling and Ethernet ports installed. At about $80 a room, it's a low-cost way to provide the capability for whatever technologies come along.

STRATEGY #5: LET THE JONESES BE YOUR GUIDE

During the boom, you could be the first on your block to have a luxury kitchen, spa bathroom, or in-ground pool and count on others following suit. And even if the neighbors never took your lead, there was plenty of equity growth to cover your costs. Nowadays that fudge factor is gone. You really have to keep your house's amenities in line with the neighborhood now. If other houses on the block have real marble countertops, by all means add one to your house, but if everyone still has faux blue-marble Formica from the '70s, you're not getting your money back. Also, keep your projects design-neutral so they'll appeal to the greatest number of people. Choose neutral colors and traditional electrical and plumbing fixtures unless your house has a modern architectural style.

STRATEGY #6: THE NEW PAYBACK TIME IS FIVE YEARS

As with any volatile investment, the longer your time frame, the lower the risk. Don't take on a big project if you're likely to move in less than three to five years. There's just too much chance that any money you put in—aside from necessary repairs or superficial cosmetic work—could be lost while the housing market continues to meander. But if you plan to stay awhile, don't delay starting a project. Home improvements are a bargain right now, with contractors bidding 10%, 20%, even 40% lower for the same work than just a year or two ago. Grab them while they're hungry for work and make it clear that you'll be getting multiple bids so they'll be motivated to undercut one another's prices. You'll fulfill the first rule of investing: Buy low. Then hope that when you're ready to move, you can sell high.

IS NOW THE TIME TO PURCHASE A CONDO?

For the first time in years there is a glimmer of hope in the condo market. After falling 20% nationwide and 60% or more in the hardest-hit areas, median condo prices remained flat nationally in the first half vs. a year earlier. Though sales in March were up 40% from the previous year, hinting that prices might be heading back up soon,, they fell 28.1% in July compared to the previous month. So is now the time to make an offer? On the side of yes: Prices and mortgage rates are low, and choices are plentiful. Plus, thanks to new, stricter financing rules on government-backed loans, qualified buyers face less competition. But many condo hot spots were seriously overbuilt during the boom—which sent prices falling at an even faster rate than those of single-family homes. Answering these three questions can help you decide:

Could you get a better deal by waiting?

A condo that's fallen, say, 40% in price over the past few years still isn't a deal if it may fall another 10% or more before hitting bottom. Or at least, it's certainly not the best deal you can hope for. So ask a realtor who specializes in condos in the area where you're looking to buy about the recent direction of prices and whether inventory is rising or falling—even if sales have picked up, a glut of partially completed projects that might come to market soon could keep inventory high. Firming prices combined with shrinking supply indicates the market is at or near a low and it's probably a smart time to make your move. Don't be afraid to bargain hard. Your starting offer should be about 10% under the asking price for a re-sale, and you can be even more aggressive bidding on a new unit.

How will you finance the purchase?

Condo prices are a lot more volatile than those of single-family homes. That's led banks to impose tougher requirements on anyone looking to finance a condo deal. Almost all lenders want you to come in with at least a 20% down payment; some also require three to six months' maintenance fees in escrow. And rules that took effect last year mean most condo buyers will also have to pay a financing fee equal to 0.75% of the loan amount. Plus, second homes and investment properties will get dinged with higher mortgage rates—up to a full point higher than on a primary residence. You'll probably also need a thumbs-up from Fannie Mae, Freddie Mac, and the FHA on the condo complex. Any mortgage they back must conform to new rules created in the wake of the real estate crash: In general, at least 75% of the homeowners need to be current on dues, and the development must have more than 10% of its annual budget in a reserve fund. In addition, no single person or company can own more than 10% of the units. Your lender should be able to tell you if a complex meets the new guidelines.

Is it safe to invest in the development?

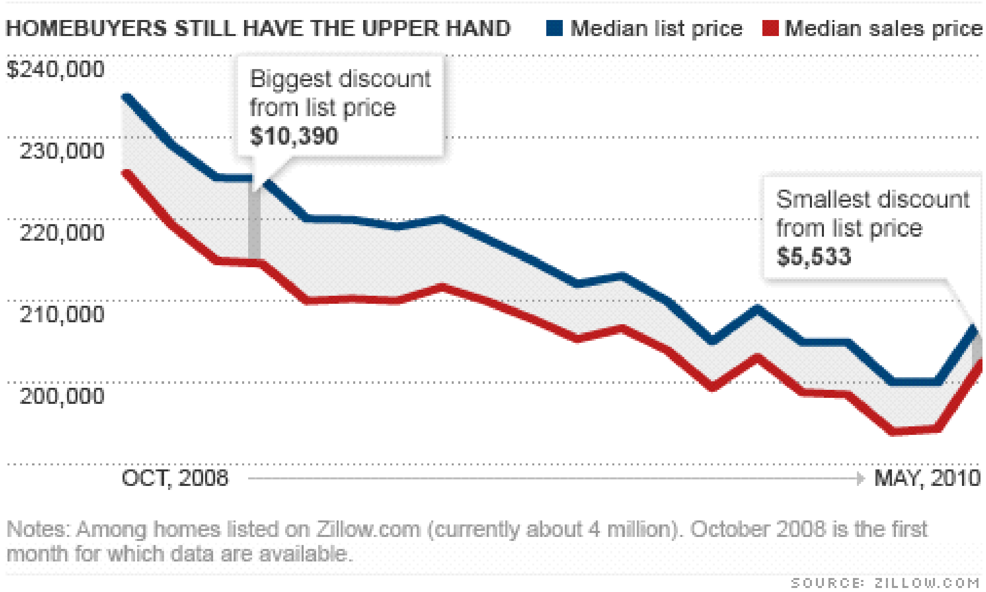
Buying into a financially shaky development can turn your dream into a nightmare. Overbuilding and foreclosures have led to a lot of half-full complexes, which mean fewer homeowners paying dues. If the homeowners association ends up with a deficit, it will issue a special assessment on current owners to cover the shortfall or increase the monthly maintenance fee. To avoid this outcome, try to confine your search to finished developments in which at least 80% of the units are occupied; avoid new construction in which the developer is still a major owner. Your realtor should be able to provide this information. Before you place a bid, it's also a good idea to talk to residents or sit in on a board meeting to find out if the development is neglecting the grounds or cutting back amenities. And if you have any doubts about the financial health of the development, walk away. After all, in this market, you have plenty of options to choose from.

DIPLOMATIC COUNTERS FOR HOME BUYERS AND SELLERS

One of the biggest impediments to negotiating a sale is the disconnect between buyers and sellers. Though sellers have gotten more realistic in pricing their homes than they were right after the housing bubble burst, agents still say that many still don't grasp how much they must concede to close a deal. And buyers are making lowball offers in hopes that sellers will be desperate enough to bite. As the home-sale season draws to a close, there's little time to waste. Whether you're trying to unload your place or obtain a new one, here are some helpful negotiating tips.

If you're buying…

No one likes being strong-armed—sellers least of all. Selling one's home is a very personal matter for most home-owners and rather than saying "I'll pay 85% of your asking price and not a penny more." A better negotiating tactic would be to look for homes that are fairly priced and make a reasonable offer. Coming in about 10% below list is a good starting place for negotiations now. Yes, buyers do have the upper hand in most markets, but the average homebuyer is paying only 2.7% below list price **(see the chart)**. Set your expectations accordingly. You can always ask if the seller is willing to bridge a price gap in other ways—for example, by picking up your closing costs (which can run $7,500 on a $300,000 house).



Sellers are not fond of contingency offers as in "I haven't put my own place on the market yet." Consequently, it would be better to list your current home before you seriously start shopping for the next one. Because it takes almost three months to move a house these days, sellers are loath to write home-sales contingencies into purchase contracts. You'll have far more leverage if you've gotten rid of your house before you start negotiating: Sellers know there's less chance of the deal falling apart. (Pre-qualifying for a mortgage helps too.) What's more, you'll know exactly how much money you can afford for your new abode.

Don't fixate on a property as in "This is my dream house." A better approach is to gird

yourself to walk away if the seller won't make reasonable concessions. Your ability to abandon negotiations is your most powerful bargaining chip. Given that plenty of other homes are on the market now, finding another place to love shouldn't be too hard. You might let the seller know that. Nicely.

If you're selling…

When you receive low-balls offers, thank them for their interest—and ask that they come back with earnest offers. Becoming offended, enraged, or unreasonable, blows any chance at further negotiation. These days many buyers are just testing you to see how big a discount they can get. A counter might be to point the bidder to comparable recent sales that support your list price. **NOTE:** If you have received several super-low offers? It would behoove one to check the sales comps to make sure your price isn't too high.

Cure property defects by paying a few hundred dollars to get your house inspected before you put it on the market. Then arrange to make any necessary repairs yourself. (In most states the law requires you to disclose to potential buyers any defects of which you're aware.) Taking care of any inspection issues upfront helps sellers limit the points that buyers can negotiate like: "I didn't know the deck was rotting."

Be prepared to move: Be sure to tell buyers- especially those who might have children starting school this month—that you're willing to vacate in a hurry, if possible. That will help you stand out from any short sales in your area, which may have lower list prices but can take months to close. If the buyers have a strict time limit, they're going to pay more money to get into a house quickly. A little more money in exchange for a little more speed sounds much better to a prospective buyer than "It might take us a while to move out."

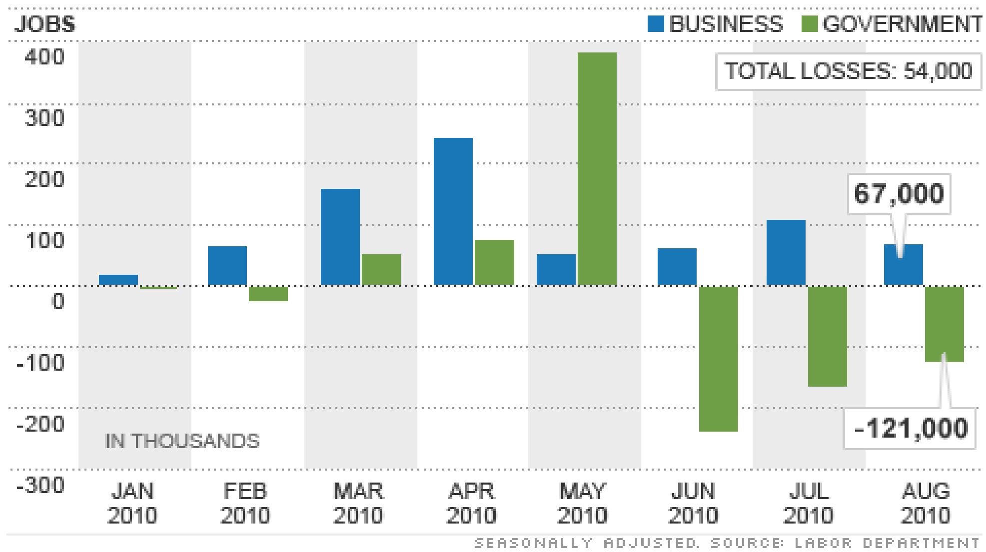
AUGUST JOBS REPORT: SIGNS OF LIFE FOR EMPLOYMENT

Business hiring is picking up, but not enough to make up for the massive losses of temporary government jobs. The economy lost a total of 54,000 jobs in August, the Labor Department reported. Businesses added 67,000 jobs to their payrolls in August. Economists had forecast a smaller gain of 44,000 jobs. It marked the eighth straight month that businesses added jobs, following nearly two straight years of job losses.

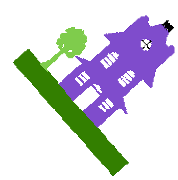
The bulk of the losses came from the public sector, as the government cut 114,000 temporary census workers. It was the third straight month that census worker layoffs caused an overall decline in jobs. But the report showed some improvements in the jobs picture, a welcome piece of good news among a slew of disappointing economic readings in recent months.

The overall losses were less than expected. Economists surveyed by Briefing.com forecasted a loss of 120,000 jobs. And upward revisions for June and July showed there were 123,000 additional job gains in those months than previously reported. Government payrolls outside of the Census Bureau, however, trimmed another 7,000 jobs in the month, with cuts coming from cash-strapped state governments.

Double-dip or just slow growth The unemployment rate rose to 9.6% in the month from 9.5% in July, matching economists' expectations. Some economists cautioned that despite signs of life in the report, the labor market is still soft. And few are forecasting any significant improvement through the rest of this year. The pace of job growth among business is not enough to make a dent in the stubbornly high unemployment. About 150,000 jobs are needed every month just to keep up with the pace of population growth. Even if job growth continues to improve, it will take years to recoup the net loss of 8.4 million jobs in 2008 and 2009. Even with more than 700,000 jobs added so far this year, total employment is 7.6 million jobs below where it stood at the start of the Great Recession. September will likely see another large drop in government jobs. But with only 82,000 census workers left, there should be limited impact on employment from the census jobs in the final three months of the year.



HOUSING PRICES REBOUND AS SO. CALIF. HOME SALES SLIDE



Home prices are rising in virtually every corner of the state. They've climbed for nine consecutive months, and in July posted a 10.4% gain year-over-year. That puts the state's median price at $315,000 -- nearly twice the national median of $183,000. And the news is even better in coastal cities. San Francisco posted the biggest gain of any U.S. metro over the past year, rising 14.3%. The median price there is now more than $607,000. Meanwhile, San Diego has climbed 11.2% (median price: $389,000) and Los Angeles jumped 9.2% (median price: $345,000).

Sales continued to decline in August, falling 2.1% from July and 13.8% from August 2009, following a 21% nose dive in July, when the boost from the federal government's housing tax credit program evaporated. Last month's figures were the worst for an August since 2007, when the housing bubble burst, and the second-worst since 1992. For the month, 18,541 new and previously owned houses, town homes and condominiums were sold. Sales of new homes fared worse than the overall market, falling 25.3% from July and 16.4% from August 2009. With only 1,382 new homes closing escrow, it was the worst August for new home sales in Southern California since 1988, according to San Diego research firm MDA DataQuick.

Last month, sales of foreclosed homes accounted for 34.7% of the Southland's resale market, up from 34.2% in July and down from 41.7% a year ago. The all-time high was reached in February 2009, when foreclosures made up 56.7% of the market.

SPECIAL(S) OF THE MONTH:

Conforming 5/1 ARM @ 2.875%

Conforming 5/1 Interest Only ARM @ 3.00%

Conforming 30 yr. fixed @ 4.00%

HomePath 30 yr. fixed @ 4.125%

MORTY'S MAILBAG

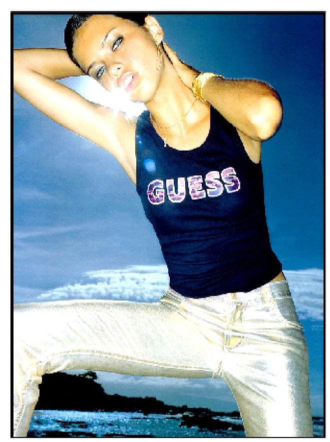
Q. I see you refer to "shadow inventory" from time to time, but I've never seen an explanation of just what it is. Could you enlighten me?

A. There is an immense amount of inventory that has yet to hit the market but will, sooner or later. People in the real estate business have taken to calling this shadow inventory. It consists of homes for which the owners have stopped paying the mortgage but the banks haven't foreclosed on yet, foreclosed properties that have not yet been put for sale, homes with modified mortgages that the owners still can't afford and will soon default on and so forth.

Properties that constitute shadow inventory will likely be around 3 million to 3.5 million units. This number included distressed properties that have been repossessed by the lender and those that are in the foreclosure process because of delinquent payments. The current housing market is absorbing about 1 million units per year, and at that rate, it will probably take about 3.5 years for the shadow inventory to be bought, occupied or otherwise absorbed.

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



I saw a woman wearing a tee shirt with **"Guess"** on it...so I said "Implants?".

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 SECOND BIGGEST MISTAKE BORROWERS' MAKE