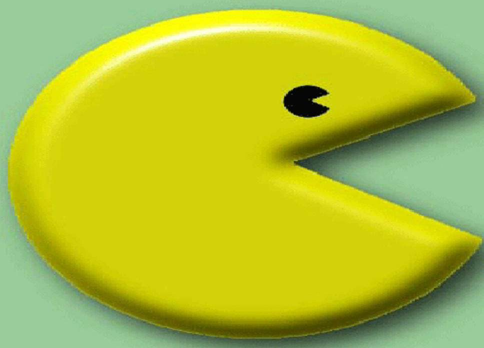

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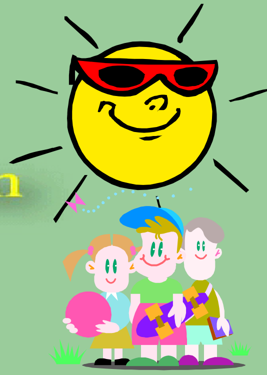


THE MONTH IN REVIEW

What a month it's been!

5/3-5/7 Portugal, Ireland, Italy, Greece & Spain—a.k.a. **the PIIGS rattled the world's financial markets this week.** The fear is that their debt crises will infect other countries' economies. **Stocks rallied strongly**, **Monday**, after U.S. automakers reported stronger year-over-year sales and European leaders agreed to provide Greece with aid over the next three years. **But they**

retreated Tuesday with the Dow dropping 225-points on renewed worries that the $146 billion debt package for Greece won't be enough to stave off bigger European debt problems. **Oil prices tumbled**, Wednesday. It's the first day oil has settled below $80 since March 15. (See Morty's Mailbag elsewhere in this issue for the relevance of this). **Thursday, the Dow plummeted almost 1,000 points before recovering with a loss of only, 348 points!** Wall Street's key index of volatility, **the VIX, spiked 21% to a fresh high of 30.19,** topping levels not seen since Nov. 4.The market was overdue for a pullback at a minimum, and possibly a correction since it hasn't had a correction—technically defined as a sell-off of 10% on a closing basis—for at least 14 months. **Employers added 290,000 jobs** in April, making it the biggest one-month gain since March 2006. Despite the gain, **the unemployment rate rose to 9.9%** due to an up-tick in job seekers who had previously been discourage and dropped out of the job market.

5/10-5/14 **Stocks soared Monday,** with the Dow Jones industrial average **up 404 points**, after European officials approved a nearly $1 trillion rescue plan to contain the debt crisis in troubled nations and stabilize the euro. **Fannie Mae requested another $8.4 billion** from the federal government, saying that **it expects its losses to continue because of trends in the housing and financial markets. Wall St. gained 148 points** Wednesday, on strong corporate earnings and easing European debt woes. The **Dow closed out the week with a 162 point loss** due to ongoing worries over the European debt crisis and fear that it could spread to the United States.

5/17-5/21 A report from the Federal Reserve Bank of New York showed that **manufacturing growth slowed** in the region **in May. The Empire State Manufacturing Survey's**

index fell to 19.1 from 31.9 in April. Economists expected the index to slip modestly to 30. **New home construction surged 41% in April** compared to last year according to the Commerce Department. **Housing starts rose 5.8%** to a seasonally-adjusted annualized rate of 672,000 in April from 635,000 in March. **Building permits, a measure of builder confidence, fell 11.5% in April** to a seasonally-adjusted rate of 606,000 from 685,000 in March. Another report showed that the **Producer Price index (PPI), a measure of wholesale inflation, fell 0.1%** in April after rising 0.7% in March. **Stocks sold off 115 points, Tuesday, as the euro touched a new four-year low versus the dollar,** keeping Europe's woes front and center while overshadowing better-than-expected earnings from big U.S. retailers. A report from the Mortgage Banker Association showed that **a record 10.06% of borrowers were delinquent on their payments in the first quarter of 2010.** Due to the Euro debt crisis, **stocks slid for a second day** and the DJIA lost another 66 points. **Jobless claims rose for the first time in a month**, according to the Labor Department's weekly report. Thursday saw **another day of triple-digit declines with the Dow**, plunging 376 points amid European financial fears. **The market rebounded, Friday**, with a 125 point advance.

5/24-5/28 **Existing home sales rose 7.6% for April** the National Association of Realtors reported. **Monday's market erased its gain** from Friday and closed down 126 points, falling to a 3-month low. **Stocks fell another 23 points, Tuesday**, on continuing worries about how the European debt crisis will impact global growth. They have now dropped more than 10% below their highs and thus met the technical definition of a correction. **New home sales soared 14.8% in April** as homebuyers rushed to claim the tax credit that expired at the end of the month. **Stocks tumbled another 69 points** resulting in the Dow closing below 10,000 for the first time in three months. **Markets rallied after China said it will remain invested in U.S. & European debt:** the Dow soared 285 points. The Dow fell another 122 points Friday after the ratings agency, **Fitch, down-graded Spain's debt.**

5/31 The markets were closed in observance of Memorial Day.

Current Implode-O-Meter Stat

This past month marks only the third time in more than three years that **there were no institutional lending casualties.** It is another sign that the mortgage climate is stabilizing. To date, **384** mortgage lenders 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.

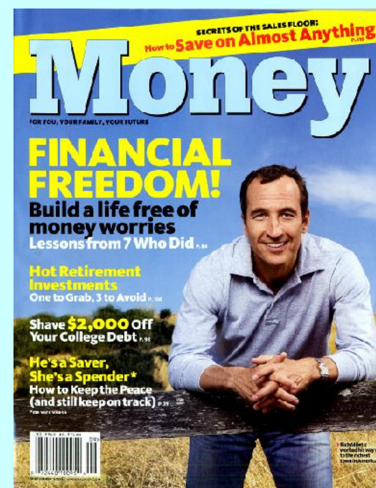
RATE SUMMARY:

Rates **DROPPED**, this past month. **Conventional conformings** were **DOWN** in the range of **.125% - .25%.** **Jumbos** were **BETTER** in the range of **.4% - .7%.** Governments (FHA & VA) were **MIXED**, the FHA 15 & 30 yr. fixed IMPROVED by ¼ pt. The 30 yr. VA was an 1/8th cheaper, also. All others were static.

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: THE 6 BIGGEST MISTAKES HOMEBUYERS MAKE

David Letterman, the TV talk show host, is somewhat famous for his Top 10 Lists. So, it occurred to me one day that it might be interesting to compile a similarly numbered list of the mistakes that buyers commonly commit when purchasing real estate. The resultant piece that I wrote was unimaginatively titled "The Top Ten Mistakes Buyers Make when Buying a Home" and it appeared in my April 2007 newsletter (Vol.4 Issue 4). Recently, a major publication copied my idea, paring the number down to six. Its piece was no more imaginatively entitled: "The 6 Biggest Mistakes Homebuyers Make". While we both agreed that buying a home is the single biggest purchase most people will ever make, many buyers ignore obvious pitfalls. Interestingly, their list and mine were in agreement on only two areas—home inspections and home insurance. Nevertheless here are their 6 most common—and costly—mistakes homebuyers make (according to Money Magazine).



1. NOT KNOWING YOUR CREDIT SCORE

If you're even toying with the idea of buying a home, you must find out exactly what your FICO score is. If you find it is less than ideal, wage a systematic campaign to raise it. Too many borrowers ignore this step and get surprised when

they get interest rate quotes. Once you've pored over your credit history and corrected any errors, your next step is to pay down revolving debt balances to no more than 30% usage. That will help raise your score significantly. Why does it matter? The lower your score, the higher your cost of borrowing. Fannie Mae and Freddie Mac, for example, charge higher up-front fees to borrowers with credit scores below 740. For a buyer with a credit score between 680 and 700, the fee comes to 1.5% of the mortgage principal. On a $200,000 mortgage, that adds up to $3,000. Someone with a 740 score pays nothing. Lower-score borrowers also get saddled with higher interest rates, about 0.4 percentage point more for the below 700 borrower. That costs an extra $62 a month -- $744 a year -- on a $200,000, 30-year, fixed rate loan.

2. BUYING A CAR BEFORE A HOUSE

Anytime consumers open new credit accounts—credit card, auto loan, etc.—their FICO score could drop, according to Fair Isaac, the creator of FICO scores, hence the admonition to not open other new accounts while your mortgage application is in process. A big purchase would use up a considerable proportion of a borrower's total credit limit, which results in a drop in the score. Lenders often continue to check credit scores in the weeks before closing. The lender will likely slam on the brakes if the applicant's credit scores have suddenly dropped below the minimum required for the requested loan rate.

3. SKIMPING ON A HOME INSPECTION

Buying a pig in a poke can cost buyers big bucks -- just when they can least afford it. So it's vital to find all the costly flaws before you buy. Many homes on the market today are distressed properties—foreclosures and short sales—and that only increases the importance of good inspections, according to David Tamny, president of the American Society of Home

Inspectors. "The owners usually didn't have the money to keep up these homes," he said. "There's a lot of deferred maintenance." A home inspection can find problems with the foundation, electrical, plumbing, roof, attic insulation, and heating and air conditioning. In some states, separate licensed inspectors offer mold or termite inspections. Often homebuyers, who may be strapped for cash, stint on inspections and look for the cheapest way to go. That can lead to disaster. "The cost of repairs far exceeds the cost of inspection," said Tamny.

4. NO LAWYER

Nearly everyone involved in a real estate transaction -- the seller, the buyer's real estate agent, the seller's agent and the mortgage broker—has a vested interest in getting the deal done because they only get paid when the house is sold. So they may push a deal even if it's not in the best interest of the buyer. One of the best defenses against making am expensive purchase you'll regret is to hire a real estate attorney—even in cities where it's not standard practice. These professionals charge flat fees and their advice is objective. It's nice to have someone on your side.

5. NO CONTINGENCIES

When signing a sales contract, buyers usually have to put up 1% to 3% in "earnest money," which they don't get back if they pull out of the deal except under certain conditions spelled out in the contract. Sellers try to limit the grounds for canceling, and inexperienced buyers may sign contracts that don't include common exceptions, such as uncovering major problems during the home inspection, failing to obtain financing and failure of the house to appraise. Failure to obtain financing is common these days because lenders have become very picky; underwriting is very strict. Even if your mortgage company is still willing to finance your purchase, the house itself may be worth less than you've contracted to pay for it, and the lender will pull its approval.

With residential real estate markets still slow, sellers usually accept contingency clauses, but if they resist, it may be better to rethink the deal. Losing a deposit of $2,000 to $6,000 on a $200,000 home hurts.

6. NOT BUDGETING FOR INSURANCE

Don't underestimate insurance costs and fail to budget for them. Many homebuyers don't understand just what is -- and what is not -- covered. Standard policies pay for theft and wind, fire, lightning, hail and explosion damage. Not covered is flooding, earthquake damage or problems caused by

neglect of routine maintenance, according to Jeanne Salvatore, spokeswoman for the Insurance Information Institute, an industry-sponsored educational group. "The most important thing is before you buy a home, find out what it will cost to insure it," she said. "Insurance needs to be calculated into the cost of owning a

home. Unlike a mortgage, which you can pay off, you'll be responsible for the insurance costs forever." For flood insurance, most buyers use the National Flood Insurance Program. Earthquake coverage may be available through a state authority or some private companies.

Depending on location, flood insurance can run into a lot of money. The cost of $250,000 worth of government flood coverage on the building and $100,000 of its contents can go as high as $5,714 in high-risk, coastal areas.

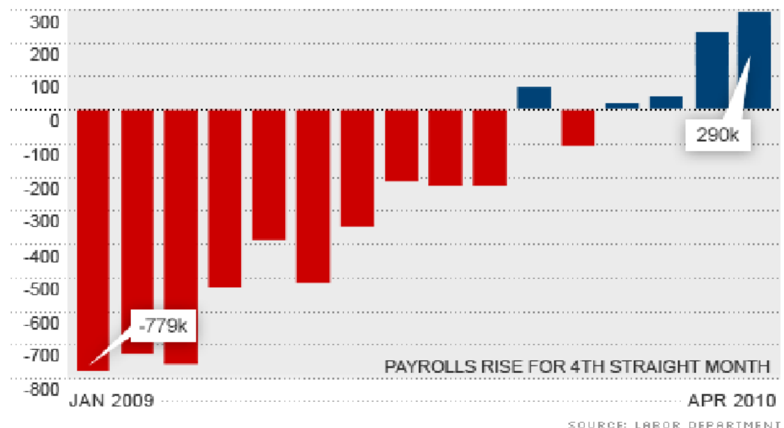
NEARLY 75% OF HOMES ARE AFFORDABLE

It's prime time for house hunters. Nearly anyone with a decent job and a good credit score can afford to buy in their home towns. More than 72% of American families making the nation's median income of $63,800 a year, could afford to buy a home during the first three months of 2010, according to a report from the National Association of Home Builders (NAHB) and Wells Fargo (WF). The national median home price for the quarter was $175,000.

Homeownership continues its more than year-long trend of remaining within reach of more households than it has for almost two decades. With interest rates still hovering at low levels, companies are starting to hire new employees and the economy is beginning to rebound which should encourage more home buyers to enter the market and help further stabilize housing and the economy.

The NAHB judges a home to be affordable if a family making the metro area's median income could devote no more than 28% of their take-home pay toward housing costs. The old industrial outposts like the Northeast and Midwest are two of the most affordable regions in which to live. The opposite end of the affordability spectrum is dominated by more glamorous bi-coastal venues, with New York being the least affordable metro area in the nation; fewer than 21% of homes are affordable for median earning households there. San Francisco, Honolulu, Santa Ana and Los Angeles followed NYC.

APRIL JOBS REPORT INDICATES RECOVERY IS UNDERWAY



What it is: Each month, the government calculates how many people are on private and government payrolls across every sector to determine how many jobs the economy is creating or losing.

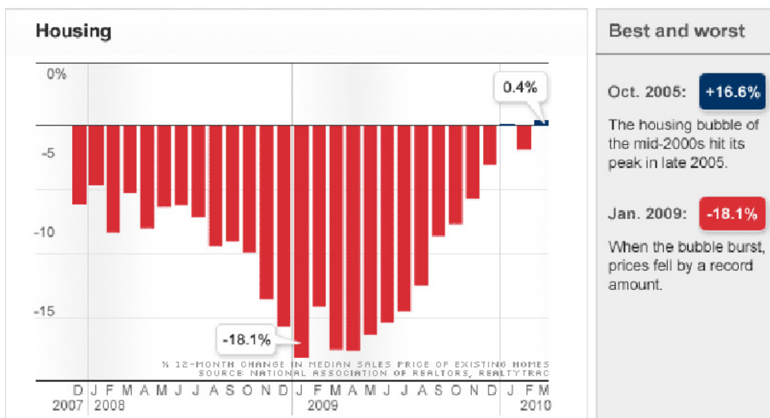
Why it's important: The economy finally started creating jobs after losing 8.4 million jobs in 2008 and 2009. But economists say a true recovery cannot take place until a good number of jobs are created each month. Economists estimate that the country needs to create at least 125,000 jobs per month just to keep up with the nation's expanding job force. That translates into 11 million jobs just to get back to the 5% unemployment rate from before the recession.

Where we're headed: The labor market has historically dragged its feet at the beginning of an economic rebound, as businesses wait for sure signs of a recovery before hiring. But many economists think that job growth will continue to get stronger as the year progresses.

The jobs report above shows that the recovery is taking hold as employers added significantly more jobs to payrolls in April. There was a gain of 290,000 jobs in the month, up from a revised 230,000 jobs added in March. This was the largest number of jobs added to the labor force since March 2006. The report also includes a separate survey of households that it uses to estimate the unemployment rate, which increased to 9.9%. Economists had forecast the rate would hold steady at 9.7%. The rise in the unemployment rate is actually a sign of improving perception of labor market conditions. The increase was due to an up-tick in job seekers who had previously been discouraged and dropped out of the job market. There was a jump of 805,000 workers returning to the labor force in April alone.

HOUSING IS SHOWING SLOW NATION-WIDE IMPROVEMENT

What it is Home values affect all property owners, so the change in prices of homes sold by homeowners is one of the more informative readings on the health of the housing market.



Why it's important: Home prices serve as a key measure of consumers' wealth and the financial sector's overall stability. When home prices rise, consumers have more funds to borrow and spend. Rising prices also means the value of financial institutions' large real estate portfolios increase, which, in theory, gives banks more of a cushion to lend.

Where we're headed: Home prices began to stabilize, as sales rose on the back of the Recovery Act's homebuyer tax credit. But sales and prices have fallen back somewhat in the past several months. Home foreclosures, which have totaled 8.4 million during the recession, are still trending higher.

FORECLOSURES PLATEAU WHILE REPOSSESSIONS SOAR

According to RealtyTrac, an online marketer of foreclosed properties, foreclosure filings leveled off during the past year but repossessions soared by 45%. The reason that repossessions can rise while filings hold steady is that lenders are working through a backlog of delinquent properties, taking more of them through the entire process to repossession, rather than letting them linger in limbo. The numbers of repossessed properties, also called real-estate owned or REOs, have been boosted by a spike in the number of homeowners voluntarily giving up their homes because their the value has dropped so precipitously.

OF FINANCIAL NECESSITY, MORTAGE BROKERS DO IT BETTER

Stratmor Group, a mortgage industry consultant, noted that with the exception of 2008, the **mortgage brokers fund more loans than mortgage bankers.** The Broker Wholesale Channel has averaged a pull-through rate of 68% from 2003 through 2009 while the average Retail channel pull-through has been about 64%. The pull-through rates declined materially in 2008, with Retail at 51% and Broker at 57%. Stratmor's data showed that the broker channel has consistently reported better pull-through rate than retail. It suggests that brokers are more successful because they are more motivated, since their pay (commission) is wholly dependent on loan completion whereas mortgage banking personnel are salaried and they get a paycheck regardless. In short no one no one cares as much about your loan as a mortgage broker—he can't afford not to!

1.6 MILLION REO SALES ARE EXPECTED IN 2010

Barclays Bank forecast that 1.6 million REOs are forecast this year. These “distressed sales” will mainly be in the form of foreclosures and short sales, and will make up roughly 30 percent of all home sales this year and next. In 2011, the

same number of distressed sales is expected, followed by a slight decline to 1.5 million in 2012.Barclays Bank said such sales totaled 1.5 million, last year.

It currently estimates that banks and mortgage investors such as Fannie Mae and Freddie Mac own 480,000 homes, a number that is expected to rise over the next 20 months and peak at 536,000 in January 2012. Then, there's also the so-called shadow inventory which includes homeowners 90 days or more overdue on mortgage payments or who already in the process of foreclosure. As of the end of February, a startling 4.6 million households were in that category, though not all of them will lose their homes thanks to loan modifications and other loss mitigation efforts.

Finally, there is the "strategic default" factor which includes borrowers that may be current but are thinking about walking away. Barclays estimates that home prices will fall another three to five percent on average over the next couple years.

FNMA CUTS RE-APPROVAL TIME IN HALF AFTER A SHORT SALE

Mortgage financier **Fannie Mae changed its required waiting period (the amount of time that must elapse after a pre-foreclosure event) to reflect current market conditions. In the past, borrowers had to wait four years after a deed-in-lieu of foreclosure to get approved for a mortgage with Fannie Mae. That time period has been slashed to just two years, though the maximum loan to value is limited to 80 percent. After four years, the maximum LTV climbs to 90 percent.**

Fannie categorizes pre-foreclosure sales and short sales the same. Or, a property sold in lieu of foreclosure for less than the total amount owed will also have a two year waiting period with the same LTV requirements. Additionally, certain extenuating circumstances will allow borrowers to get loans after just two years at up to 90 percent LTV. In all cases, borrowers must re-establish their credit, meaning they must meet minimum credit score requirements and eligibility requirements.

Fannie Mae and Freddie Mac currently require afive-year waiting period after foreclosure to re-establish credit; the waiting period is only three years for an FHA loan and two years for a VA loan.

REVISITING WHAT CAUSES MORTGAGE RATES TO MOVE

I've covered this before but sometimes repetition is a good thing. One of the most pervasive presumptions is that mortgage rates are inextricably linked to the yield on the 10-year Treasury note. Most people in the mortgage business know this just isn't so, but many lay people and many financial writers mistakenly think they are. The confusion arises because the 10-year Treasury note **INFLUENCES** the pricing of mortgage-backed securities (MBS) but they are not pegged to it. **Mortgage rates are based on Mortgage-Backed Security (MBS) pricing.** Because MBS are not backed by the US government but instead are backed by borrowers, the yield on Treasury securities will always be less than the rates on mortgages. The interest "spread" above Treasury securities, are combination of many different factors. Interest rate expectations, supply and demand, inflation expectations, tax rates, and prepayment & delinquency expectations all are factored in. For the afore-mentioned reasons about 65% of the time as Treasury note yields increase, mortgage rates rise. But, a good 35% of the time rising Treasury yields will not see commensurate rises in mortgage rates.

MORTY'S MAILBAG

Q. As an occasional reader of your newsletter, I notice that you sometimes list an increase or decrease in the price of oil. It escapes me as to what the price of oil has to do with the interest rates on mortgages.

A. It's a fair question and one that not many readers would have the courage to ask. The short answer is that there are a number of variables that affect the nation's economy and by extension the interest rates on home mortgages.

In my Month In Review, a feature that opens all newsletters, I include what I think are the most salient news stories of the day and/or week which is followed by the Rate Summary which allows readers to draw their own conclusions as to which events (or combination of events) in the preceding month impacted mortgage rates.

The longer answer (and I hope it's worth the trip) is that macroeconomics is an inexact science. In the economic scheme of things there are a multitude of intersecting variables that comprise GDP, like employment, productivity, wholesale prices, sales of goods and services, balance of trade, transfer payments (social security, Medicare, unemployment insurance), foreign affairs (wars) and inflation to name just a few. To fathom the extent of how disparate pieces of a nation's economy impact one another is a little like trying to assess how raindrops and their resultant intersecting ripples affect the ebb and flow of interest rates. Nevertheless, it is possible to see the relative cause and effect between certain events and detect an idea as to where and how the economy is headed from deciphering some of the connections between the various components.

Our economy is consumer driven: consumer spending accounts for two-thirds of gross domestic product or the American economy. At present, the economy remains weak; one in 6 Americans can't find enough work. Not surprisingly, rising oil prices cut into family budgets. The price of a gallon of gas is near $2.63 according to the latest AAA survey. That's well below the 2008 peak of $4.11—but up 25% from a year ago and 63% above 2008's December low.

What's more, the factors behind this spike seem likely to persist for the foreseeable future. They include a pickup in global economic activity fueled by massive government spending, a decline in the purchasing power of the dollar as the U.S. holds interest rates near zero [oil prices are denominated in dollars], and lack of new oil supplies coming on line to meet future demand. While these trends hardly ensure rising fuel prices, they seem to have been doing their part so far, putting gasoline at $3 a gallon in much of the U.S.

Any time it gets above $3, you start to see a change as budgets get squeezed. A price of $3 a gallon is noteworthy because it's around the level at which consumers are devoting 6% of their budgets to energy costs. Hitting that point in recent years seems to have prompted American to pull back. As energy prices soared and incomes came under pressure, Americans first stopped buying pickup trucks and then deserted the local car dealer altogether. Car sales plunged in the spring of 2008 before falling off a cliff with the collapse of Lehman Brothers that September.

The price of oil played a bigger factor in the recession than people seem to remember. U.S, oil consumption has slid 9% since 2007 and Americans drove 3% fewer miles in the latest year through August than they did two years earlier. Every recession since 1972 has been associated with an oil price surge that took U.S. oil consumption past 4% of gross domestic product. Energy prices don't need to rise that much before a fragile consumer-led economy could face another setback. A run-up in the cost of oil squeezes consumers which could complicate the economic recovery.

As people consume fewer goods and services there are fewer sales and fewer sales mean less need for new hires. Because of job loss 14% of homeowners are currently delinquent or in the foreclosure process. Rising foreclosures and delinquencies mean a drop in the price of homes. As home prices drop, interest rates fall (usually). Thus, achieving energy independence can reduce the economic pangs associated with higher oil prices.

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 new client had just come in to see a famous lawyer.

"Can you tell me how much you charge?" said the client.

"Of course", the lawyer replied, "I charge $200 to answer three questions!

"Well that's a bit steep, isn't it?"

"Yes it is", said the lawyer, "And what's your third question?"

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

NEXT ISSUE'S TOPIC:
FSBOs (PART I)