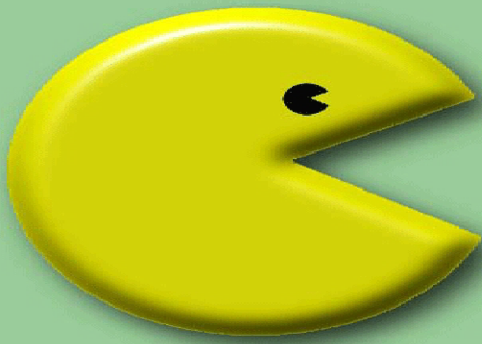

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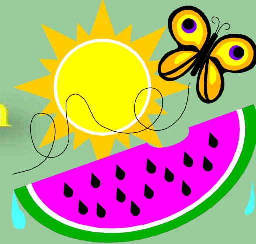
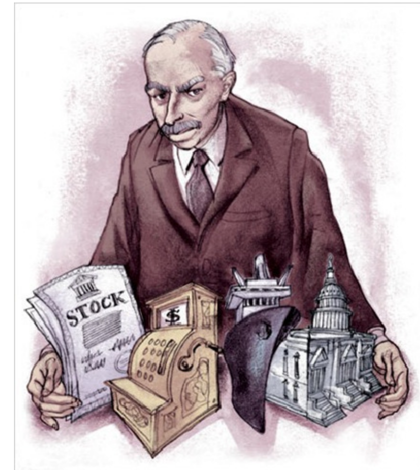


POLITICIANS, JOBS AND MACROECONOMICS

The public at large is not very conversant with macroeconomics. (One only has to look no further than the Tea Party protesters to see how inchoate their understanding of large-scale economic systems is). Yet, the TP protestors and deficit hawks have gained considerable traction with Congress. The more cynical among us would ascribe much of their success in this mid-term election year to Congress' concern about jobs—their own.

Unfortunately, politicians are not much more versed in the macroeconomics than the lay public. Nevertheless, it is they who are charged with enacting economic policy. Recent reports show that job growth is anemic, consumer spending is proving to be weaker than hoped, exports are slowing due to a rise in the value of the dollar and economic problems in Europe, and the housing market is slumping again—all of which have added to worries about the strength of the recovery. Of late, most of the rhetoric about the economy has had one central theme: policy makers are doing too much. Governments (both here and abroad) need to stop spending, we're told. There are continual warnings that inflation is just around the corner, and that the Fed needs to pull back from its efforts to support the economy and get started on its "exit strategy," tightening credit by selling off assets and raising interest rates. Condemning deficits, and refusing to help a still-struggling economy has become *de rigueur* in Congress. Last month, 52 senators voted against extending aid to the unemployed despite the highest rate of long-term joblessness since the 1930s. Ironically, when it came to efforts to control health costs, the most vocal deficit scolds uttered cries of "death panels".

Today, Keynesian economics and its central insight about depressions—that governments need to spend when the private sector isn't—is still little understood by the lay pubic and politicians. The truth is that policy makers aren't doing too



much, they're doing too little. They've got it reversed—we need to be spending while the economy remains depressed and deal with long-run budget problems after it has recovered. We should be spending to create jobs, providing aid to hard-pressed state and local governments, investing in alternative energy technology, re-building our infrastructure and funneling money into education. Recent data suggest that America is not heading for a Greece-style collapse of investor confidence. Instead, the statistics suggest that we are heading for a lost decade, trapped in a prolonged era of high unemployment and slow growth *a la Japan*. Many economists, most notably Nobel laureate, Paul Krugman, regard this turn to austerity as a huge mistake. It raises memories of 1937, when FDR's premature attempt to balance the budget helped plunge a recovering economy back into severe recession. Despite these warnings, the deficit hawks are prevailing in most places even though the economy continues to operate far below capacity.

In March there was much ado about the interest rate on U.S. 10-year bonds, which had risen from 3.6% to almost 4 percent. "Debt fears send rates up" was the headline at The Wall Street Journal, although there wasn't actually any evidence that debt fears were responsible. Since then, rates have

retraced that rise and then some. As of (7/20/2010) rates have fallen to 2.89%

It would be nice if the falling interest rates reflected a surge of optimism about U.S. federal finances. What they actually reflect, however, is a surge of pessimism about the prospects for economic recovery, pessimism that has sent investors fleeing out of anything that looks risky—hence the plunge in the stock market—into the perceived safety of the U.S. government debt.

What's behind this new pessimism? It partly reflects the troubles in Europe, which have less to do with government debt than you've heard; the real problem is that by creating the euro Europe's leaders imposed a single currency on economies that weren't ready for such a move. But there are also warning signs at home, most recently June's revision that actual 1st quarter GDP grew at 2.7%, not the 3.5% that had been reported earlier or May's report on consumer prices, which showed a key measure of inflation falling below 1 percent, bringing it to a 44-year low.

This isn't really surprising: you expect inflation to fall in the face of mass unemployment and excess capacity. But it is nonetheless really bad news. Low inflation, or worse yet deflation, tends to perpetuate an economic slump, because it encourages people to hoard cash rather than spend, which keeps the economy depressed, which leads to more deflation. That vicious circle isn't hypothetical: just ask the Japanese, who entered a deflationary trap in the 1990s and, despite occasional episodes of growth, still can't get out.

No doubt some officials at the Fed see the Japan parallels all too clearly and wish they could do more to support the economy. But in practice it's all they can do to contain the tightening impulses of their colleagues, who (like central bankers in the 1930's) remain desperately afraid of inflation despite the absence of any evidence of rising prices. Although administration economists would very much like to see another stimulus plan (as the first was too small), they know that such a plan would have no chance of getting through a Congress that has been spooked by deficit hawks.

The deficit scolds' argument that "we must cut our deficits immediately to impose austerity on a depressed economy or we will be burdening future generations in perpetuity" makes no sense. Because, even if you manage to save several billions—which you won't because the budget cuts will hurt the economy and reduce revenues—the interest payment on that much debt would be less than a tenth of our GDP. So the austerity they advocate will threaten economic recovery while doing next to nothing to improve our long-run budget position.

The key point is that while the advocates of austerity pose as hardheaded realists, doing what has to be done, they can't and won't justify their stance with actual numbers—because the numbers do not, in fact, support their position. Many self-described deficit hawks are hypocrites, pure and simple: They're eager to slash the benefits of those in dire need, but their concerns about red ink vanish when it comes to tax breaks for the wealthy. Thus Senator Ben Nelson, (Democrat) who sanctimoniously declared that we can't afford $77 billion in aid to the unemployed, was instrumental in passing the first Bush tax cut which cost a cool $1.3 trillion.

The financial markets get it, if the policy makers seemingly don't: that while long-term fiscal responsibility is important, slashing spending in the midst of a depression which deepens that depression and paves the way for deflation is actually self-defeating. Right now we have a severely depressed economy—and that depressed economy is inflicting long-run damage. Every year that goes by with extremely high unemployment increases the chance than many of the long-term unemployed will never come back to the work force. Stinting on spending threatens the recovery. We need to spend now, while economy remains depressed and save later, once it has recovered. The biggest obstacle to the recovery is not economic, it's political.

As egregious as policy makers re-election venality and scant knowledge of macroeconomics may be, their willingness to be co-opted by the banking industry's successful derailment of "too big to fail" financial reform legislation is no less so. But, that's a whole other story.

THE MONTH IN REVIEW

7/1-7/2 The **stock market fell again** on continued weak overseas economic and manufacturing activity. Non-farm payrolls fell 125,000 as U.S. census workers were let go, however, the private sector hired 83,000 new workers reflecting the U.S. economy is treading water at best. Interestingly, **the unemployment rate fell to 9.50%, Friday,** as folks left the workforce.

7/5-7/9 U.S. **financial markets were closed Monday** in observance of Independence Day. **The national mortgage delinquency rate grew to 9.2% in May, up 2.3% from a month earlier** and 7.9% from a year earlier, according to the latest report from mortgage performance data and analytics provider Lender Processing Services. **The Dow Jones industrial average gained 275 points,** or 2.8%, its biggest one-day point and percentage gain since June 10. A government report released Thursday showed that **consumer credit fell at an annual rate of 4.5% in May, making it the fourth consecutive month of declining credit. Treasury prices fell, raising the yield on the 10-year note to 3.06%** from 3.02% late Thursday. (Bond prices and yields move in opposite directions).

7/12-7/16 The DJIA swelled 146 points Tuesday amid higher quarterly corporate sales and earnings. **Retail sales fell for the second straight month in June**, following seven consecutive increases. Despite rates having hit all-time lows last week, **mortgage applications to buy a home plunged last week to the lowest level in more than 13 years**. On Wednesday, the **Federal Reserve lowered its forecast for GDP this year to a range of between 3% and 3.5%** versus the previous forecast of a range of 3.2% to 3.7%. On Thursday, a report showed that **weekly jobless claims fell to a two-year low -- but continuing claims, a measure of long-term joblessness, rose.**

7/19-7/23 Citing weakening growth prospects and mounting debt, **Ireland's debt rating was downgraded by Moody's Investors Service,** Monday. **New home construction fell to an 8-month low in June,** despite indications of increased activity in coming months, the government reported, Tuesday. On the other hand, **building permits**, a gauge of future construction activity, **rebounded last month** and posted their first gain since March. **The Dow retreated 109 points** on the heels of Fed Chairman, Ben Bernanke's observation that "the economic outlook is unusually uncertain" --though he sees continued growth, he also warned of possible setbacks. The **NAR reported that sales of existing homes fell 5.1% in June**. **Stocks surged 201 points** Thursday after the release of a rash of strong corporate profit reports. **Stocks rallied for the 2nd time in as many days.** The gain, another 102 points, came after a report showed that most of Europe's big banks passed their stress tests, easing investor worries about the strength of the global economy.

7/26-7/30 **New home sales rebounded in June** from the record low hit the previous month but remained sluggish. **The housing report of a 24% increase sent stocks higher** Monday, pushing the Dow industrials into positive territory for the year. **Home prices rose 1.3% from April,** and 4.6% from 12 months earlier, nationally. **San Diego, at 12.4%,** and Los Angeles, at 9.7%, were among the counties posting the largest year-over-year gains. **The Consumer Confidence Index fell to 50.4 in July from** an upwardly revised 54.3 in June. The Federal Reserve reported that **GDP rose 2.4% in Q2,** citing improved conditions in the services sector, retail sales, consumer spending and the overall labor market. It noted that the housing market, however, lost steam following the expiration of the homebuyer tax credit.

Current Implode-O-Meter Stat

This month is the third time in three years that there were no institutional lending casualties and another sign that mortgage lending is stabilizing. To date, **385** mortgage lenders that have "imploded" since the beginning of 2007, meaning that they have halted major operations, filed for bankruptcy or become a "fire sale" acquisition of another lender.

RATE SUMMARY:

Rates **DROPPED,** this month.

Conventional conformings IMPROVED an 1/8th to 3/8ths

Jumbos FELL 0.1% to 0.2%**.**

Governments (FHA/VA) were **SLIGHTLY BETTER,** the VA Conf. & HB 30 yr. fixed improved.

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: HOW TO BUY A FORECLOSURE

Since foreclosures comprise nearly a third of all home sales it seems timely to include a few things to be aware of when buying a foreclosure. Remember, there are both great opportunities and great pressures and pitfalls in this market. First, you have to decide at what stage of fore-closure you want to buy. There are three options: 1. pre-foreclosure; 2. sheriff's auction; 3. repossession, called REO (for real estate owned by the bank). According to RealtyTrac, an online marketer of foreclosure properties the safest and best way to buy is when it's a bank-owned property.

Pre-foreclosure: These homes are in the foreclosure process, but they have yet to be sent to auction. Owners are typically trying to unload them because they are "underwater," owing more on the homes than they are worth. As a result, potential buyers must negotiate a deal with the lender as well as the owner. That makes buying at this stage of foreclosure complicated and slow. But, you have the advantage of being able to inspect the home before purchase—which isn't the case in other types of foreclosure sales. Prices are usually higher at this point than at other stages of foreclosure.

Sheriff's auction: These sales yield the lowest prices, but they are fraught with difficulties. Often the house is unavailable for inspection, leaving buyers with a long list of expensive repairs—and much larger bill than they intended. This stage is usually best left to the professionals, the contractors and investors who regularly bid on these places and know what they're doing.

Repossession: This occurs after the home has gone through a sheriff's auction but does not sell and the bank gains possession of the property. Homebuyers may not get the best bargains during this stage, but they can nearly always perform a thorough inspection before closing, minimizing costly surprises. Plus, the property comes with a clear title. In addition, the banks selling these places may extend preferential financing terms to the buyers and may have made some repairs before putting the property on the market. Even in this safer stage, though, homes are still usually sold in "as is" condition. This means the bank won't pay for cosmetic issues. Although, they will often pay for some or all of repairs that are health and safety issues which makes the home inspection even more critical. Also, since you're buying from a corporation, not an individual, the buying process can be faster, so be prepared to move quickly. Many times a listing goes on sale on a Friday and is sold over the weekend. The buyers and their agents need to be on top of everything from the inspection to the financing. Some banks will even charge a per diem fee for late closings.

Once you've decided which type of home to buy, there are several common mistakes foreclosure buyers should take care to avoid. These include:

Getting caught up in a bidding frenzy: The banks often under-price repossessions, hoping to generate excitement, attract multiple bids and sell them quickly. The problem is, as in any auction-type sale, bidders get excited and pay too much. Remember, there are 800,000 REOs in the banks' inventories. There'll be another home to bid on tomorrow.

Underestimating repair costs: Be aware too that many of these homes need serious repairs, and you don't always have a chance to check them out before bidding. If you can't get a thorough inspection, walk away. If you can, take full advantage of the home inspection and don't delude yourself about much the repairs will cost. Take along someone who can give you a good estimate of how much repair costs will come to. A suggested rule of thumb is to factor in a cushion of 10% to 20% of the purchase price to pay for unexpected repairs. And don't focus on short sales if you have to move quickly. Last year such transactions often took as long as six months. While some banks have streamlined the process, you can't count on a speedy deal.

Not knowing what comparable properties cost: This is important in any market but especially in this endeavor. In high foreclosure areas, prices can be eroding very quickly. You want to have the latest homes sale prices on repossessed properties and try to keep your bid comparable or lower.

Buying in a neighborhood flooded with foreclosures: This is most important for people buying for the short-term. Any neighborhood saturated with REOs and foreclosures may be headed for further price falls. If you're planning to relocate within a few years or buying a bigger house, that could mean selling at a loss. A better bet, if you can find it, is to buy the only foreclosed home in an otherwise stable community. That's more likely to hold its value.

On the other hand, if you're shopping in an area with a growing number of foreclosures, use that fact to wring price concessions from owners anxious to sell. And ask the homeowner to fix anything wrong with the house flagged in the inspection, or to give you a discount to account for it.

Not having financing in place: If you don't have a pre-approved mortgage, you're really not in the market. You have to be able to move quickly. Banks don't want to dilly-dally on sales; they're losing money every day that homes sit on the market. That means they'll often jump on the highest bid with the best financing already in place. Having a loan beforehand carries another advantage: It tells you how much credit you have available. You won't spend time shopping for homes that are too expensive. Remember that pre-approved financing is different from pre-qualified financing; it means the loan is ready to go. Pre-qualified is more like an opinion of a loan officer and there's still work to be done before final approval.

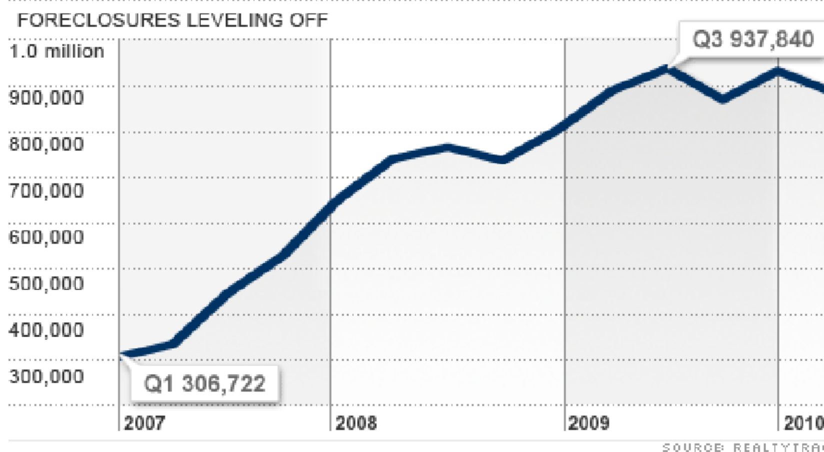
If you're in the market for a new home, you may be tempted by the low prices on bank-owned properties, which are going for about 30% less than seller-owned homes. But be prepared to come in with a hefty down payment (at least 20% to 25%) to compete with investors offering banks all-cash or significant cash deals.

FORECLOSURES UP, REPOS DOWN

The foreclosure plague seems to have peaked and has begun to ebb, be it ever so slightly, but the recovery is still fragile. The number of foreclosure filings of all types—including notices of delinquency, auction notices and repossessions—fell during the first six months of 2010, according to RealtyTrac, the online marketer of foreclosed properties. There were 1,654,634 properties with foreclosure filings, a 5% decline compared with the previous six months. That equates to 1 out of every 78 homes being at risk. Unfortunately, the pace of bank repossessions quickened, with nearly 270,000 homes lost to foreclosure during April, May and June, a 5% increase over the three winter months.

The data showed improvement because fewer properties were entering the foreclosure process. Part of that is because lenders are now more committed to modifying defaulting mortgages or allowing homeowners to sell their homes for less than they owe. At the same time, lenders have cleared many properties out of the foreclosure pipeline, finalizing repossession proceedings rather than allowing homes to sit in limbo. Yet, there is still much inventory to move through the system and experts aren't sure how bad it will be.

As they have for many months now, the "sand states" led the nation in foreclosures during the first half of the year. One in 17 Nevada households, or 64,429, received a filing. That is the highest rate of any state. The number of California homes with filings came to more than 340,000, the highest total of any state. Florida had more than 277,000 filings, or 1 for every 32 households; Arizona had more than 91,000, 1 in 30 homes. Lenders repossessed 45,000 Calif. homes during the three months ended June 30, more than in any other state. Nevada, with a much smaller population, had nearly 11,000 repossessions, about twice the rate of the Golden State.



UNEMPLOYMENT AT 7%--IN 2012, BUT NOT NOW!

The recession killed off 7.9 million jobs. It's increasingly likely that many will never come back. The government jobs report issued 7/2/2010 shows that businesses have slowed their pace of hiring to a relative trickle. The job losses during the Great Recession were so great, that even though we've gained about 600,000 private sector jobs back, we've got nearly 8 million jobs to go. Excluding temporary Census workers, the economy has added fewer than 100,000 jobs a month this year—a much faster and stronger jobs recovery than occurred following the last two recessions in 2001 and 1991. But even if that pace of hiring were to double immediately, it would take until 2013 to recapture the lost jobs.

Recapturing the lost jobs, however, fixes only part of the problem. The nation's working-age population grows by about 150,000 people a month. So the hole is deeper than it looks. It would take the creation of 10.6 million jobs immediately for the same percentage of the population to be working as was the case three years ago. Of course, it will take time to create jobs. If it takes three years, more than 3.5 million additional jobs will be needed because of continued population growth. The unemployment rate is currently 9.5%. In fact, the Federal Reserve, in its latest forecast, predicts that unemployment will stay around 7% or above through 2012, and in the 5% to 5.3% range in the long-run.

GOOD NEWS, BAD NEWS IN M & S INDEXES

Manufacturing activity expanded for the 11th straight month in June, according to a purchasing managers' survey released Thursday, but the rate of expansion slowed more than economists expected. The Institute for Supply Management's (ISM) index of U.S. manufacturing dropped to 56.2 in June from 59.7 in May. The reading

came in much lower than the slight decrease to 59 that economists had expected, according to a Briefing.com consensus survey. Despite the slowdown in growth, levels higher than 50 signal manufacturing growth, while readings below 50 indicate contraction. Expectations are that the second half of the year will not be as strong in terms of the rate of growth, and June appears to validate that forecast. The decline in manufacturing growth in June was largely due to a slowdown in new orders and production, the report showed. The Institute for Supply Management's index on the services sector of the economy also showed a decline. The index fell to 53.8 in June from 55.4 in May.

THE RICH ARE MORE 'STRATEGIC' DEADBEATS

More than one in seven home loans in excess of $1 million are seriously delinquent, according to data compiled for the NY Times by real estate analytics firm **CoreLogic**. At the same time, only about one in 12 mortgages below the $1 million-mark are behind on payments, which CoreLogic attributes to the rich being "more ruthless." Not just ruthless, but strategically ruthless.

Many of the defaults are suspected to be strategic, meaning borrowers have decided to walk away instead of continuing to make mortgage payments, even though they are more than able to do so. CoreLogic has seen the trend across all property types, including primary residences, vacation homes, and investment properties And despite likely having more resources at hand to repay their mortgages, the rich are falling into default at a higher clip.

For example, the delinquency rate on investment properties where the original mortgage exceeded $1 million is now a staggering 23 percent, while compared to about 10 percent for cheaper investment homes. A few years back, smaller loans were much more likely to be in

serious default, but the trend quickly reversed in the past couple years. The rich may be more willing to walk away because there is less concern about the credit scoring impact of a foreclosure, as they can purchase another house with cash, or simply shed one of their many properties. At the same time, most loan modification programs, like HAMP, are designed for those with smaller mortgages, so perhaps the rich see default as the best and only option.

THE KEY TO A QUICK CLOSING—PROVIDE WHAT IS REQUESTED

Last December, in a piece titled "Madness in the Mortgage Business", I observed that with the new regulations how much harder it was to get loans closed than was formerly the case. Lenders' underwriters and funders are more demanding than ever and doing their best to cover their backsides so that their employers do not have to buy loans back from investors for reasons of non-compliance. Some borrowers are of the opinion that certain lenders are more difficult to deal with others. That is simply not the case—nowadays, THEY ARE ALL DIFFICULT. Because of the strict enforcement of Fannie/Freddie guidelines in the secondary market between lenders and investors, doing a loan with nary a one [lender] could any longer be called a "a walk in the park".

Nevertheless, we closed on a purchase the first week in July that took exactly 25 days—start to finish. It was a pleasant surprise, especially given the often onerous prior to doc (PTDs) and prior to funding conditions (PTFs) that processors are now saddled with. I asked my processor why this one zipped through with relative speed. He told me that even though the borrowers had near 800 FICOs, long-tem employment, and substantial assets, it was as onerous as most with 25 prior to docs and 19 prior to funding conditions. He added that the buyer/borrower (this was a purchase) had as many questions as any of

our other clients, if not more. BUT, what made all the difference was her ready willingness to readily furnish whatever documentation that the lender requested.

Sometimes, clients fail to understand that not only do we work on their behalf—that we are advocates for them—not the lenders. As such, we never ask for anything more than what the lender requires. Our purpose is to accelerate and facilitate the process. The fewer lender conditions that we have to satisfy, the easier it makes our lives and our borrowers. At the same time, borrowers need to understand that we have little leverage over lenders (other than to take the loan to another lender which would take more time and likely require a new appraisal which would negate our goal of getting a borrower's loan closed as quickly and cheaply as possible).

SPECIAL(S) OF THE MONTH:

The Conf. 30 yr. fixed or DU Refi Plus both @ 4%

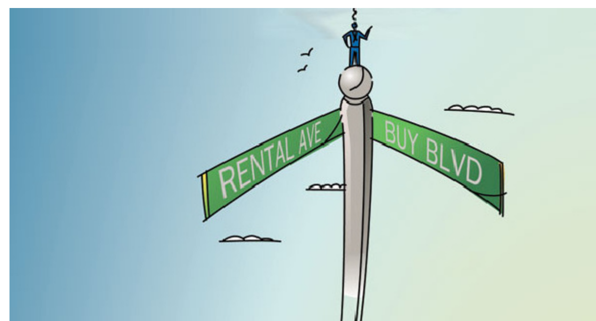
The FHA 15 yr. fixed @ 3.875% or VA @ 4%

The 30 yr. fixed jumbo @ 5.25%

MORTY'S MAILBAG

Q. Would you discuss how one might go about determining whether it's better to rent or buy? I know it depends on one's personal finances, but I am looking for something of a general nature that we could apply to our own situation.

A. Until recently, the perennial real estate question of whether to rent or buy was a dead issue. During the boom years, the question was largely irrelevant as people rushed to pay ever increasing prices for already expensive real estate. But now that national home prices have slid substantially and potential buyers are being more cautious, there has been a resurgence of interest.



The obvious approach is to simply compare the costs of buying a two-bedroom condo (for example) with the costs of renting one. (This methodology can obviously be applied to other classes of homes, such as larger single-family houses). Economists generally hold that anything below 15 times the annual rent is a buyer-friendly city. These stats cover the costs of buying vs. renting; they don't take into account future price appreciation or depreciation. If, for example, prices rapidly decline, the total cost of ownership could exceed rental cost, especially when the transactional costs, such as real estate broker commissions, taxes and mortgage origination costs are factored in. What is more likely to be the case is that prices in many cities will remain sluggish for a number of years; home price appreciation should not be a strong consideration when deciding whether to rent or buy. These analyses are also just a general guideline; individual circumstances (as you observed) matter, too. People in higher tax brackets, for example, may get more "bang for their purchase buck" because they're able to deduct more interest costs and property taxes. And, once people purchase, their home-buying costs tend to be fairly stable. Fixed-rate loans don't go up (although taxes and maintenance costs can.) Rents usually do.

Another factor, of course, is price stability. Unlike home prices, rents tend to rise or fall just a few percentage points each year. Even 2009's record decline in average rents was a paltry 2.9%. On the other hand, the national median home price jumped 12.2% in 2005 and fell nearly 20% in 2008, according to housing groups.

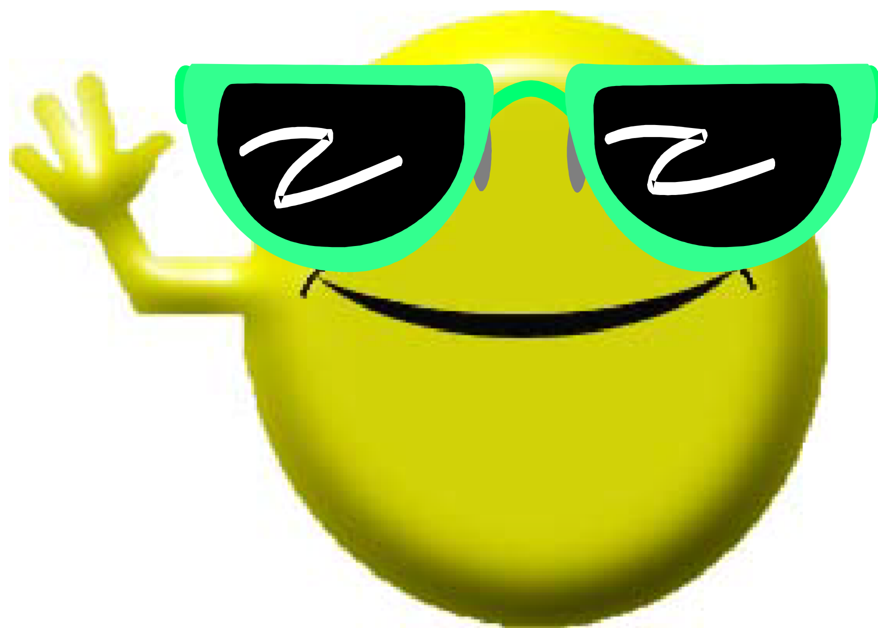
There are also many intangible benefits for both buyers and renters. Buyers often feel more invested in their communities, more likely to put down roots, make friends and join local organizations. Home ownership often brings

them pride and joy. Renters, on the other hand, may not want the responsibilities of home ownership or being tied down. If another place comes along that may suit them better, they can easily move. They're also freer to pursue employment opportunities in other cities without worrying about selling their old homes and buying new ones.

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

Light travels faster than sound. This is why some people appear bright until you hear them speak.



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