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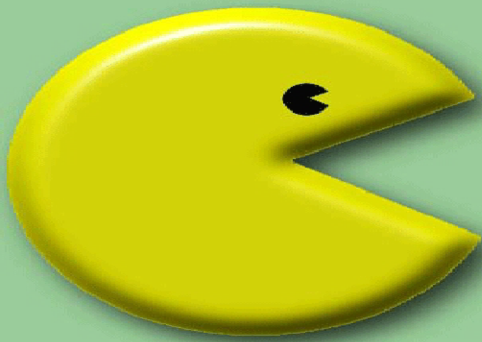

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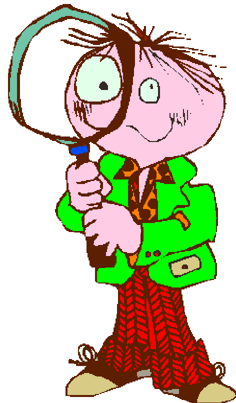


THE MONTH IN REVIEW

1/3-1/7 **Manufacturing activity expanded for a 17th month in a row in December**. The Institute for Supply Management's index for manufacturing activity ticked up to 57 in December, the highest reading since May and up from 56.6 in November. **The Dow spurted to a new two-year high Monday, finishing up 93-points**. Not so surprising a statistic: **Consumer bankruptcies hit a 5-year high in 2010.**

Roughly 1.53 million consumer bankruptcy petitions were filed in 2010, up 9 percent from 1.41 million in 2009, according to the American Bankruptcy Institute. **The price on the benchmark 10-year U.S. Treasury fell, pushing the yield up to 3.49%** from 3.34% late Tuesday. **The unemployment rate sunk to 9.4%,** its lowest level since May 2009.

1/10-1/14 **Stocks faltered modestly amid Euro-zone jitters over a possible bailout Portugal.** The Labor Dept. said **jobless claims increased to 445,000 for the week ending January 8,** an increase of 35,000 over the previous week.

1/17-1/21 **The National Association of Home Builders/Wells Fargo sentiment index registered a reading of 16,** the same as the past two months. Readings below 50 mean more respondents said conditions were poor. The stagnant reading reflected that a lack of credit is impacting construction this year. **Southern California home sales**

declined almost 13 percent in December from a year earlier as unemployment and tight credit cut demand, MDA DataQuick said. Despite a perceived up tick in mortgage rates, **adjustable-rate mortgages are expected to grab a nine percent share of the home purchase market this year**, according to Freddie Mac's 27th Annual ARM Survey. **Building permits climbed 17% in December** the Commerce Dept. reported. It was the biggest monthly rise since June 2008. **Sales of previously- owned homes jumped 12.3% in December**, putting sales at the highest level since the homebuyer tax credit expired in June. The Labor Dept. said the **number of Americans filing unemployment claims eased by 37,000 to 404,000, last week.**

1/24-1/28 Stocks finished up 108-points Monday as the Dow closed in on 12,000. **The Consumer Confidence Index shot up to 60.6 in January**, from 53.3 in December, the Conference Board, a New York based

research group that compiles the index, said Tuesday. The index is still well below a healthy reading. An overall reading above 90 indicates the economy is solid, and 100 or above indicates strong growth. **New home sales for December rose 17.5% month over month,** but 2010 also marked a 47-year low in new home sales. In its first meeting of 2011, **the Federal Reserve said it remains cautiously optimistic about the economic recovery:** It has decided to leave interest rates unchanged and continue with its $600 billion bond buying program to stimulate the economy. **The Labor Dept. reported that initial jobless claims jumped from 403,000 to 454,000 this past week. U.S. stocks tumbled and oil prices rallied Friday, as investors grew nervous about political unrest in Egypt.**

1/31 Oil prices climbed to $92.23/bbl amid the ongoing tensions in Egypt. Crude prices spiked more than 8% in the past month, 4% just this past Friday because of worries about potential disruptions to shipments through the Egypt-controlled Suez Canal.

THIS ISSUE'S TOPIC:
FSBOs—A THEORETICAL APPROACH

Several months back, I made a rather exhaustive list of the various things one needs to attend to when sellers elect to sell their home themselves. This month, I have cribbed a few "outside the box" marketing ideas from CNN/Money for homeowners that are committed to selling their home themselves. What follows are some suggestions you may not have heard of before as well as some of the more obvious but frequently overlooked

1. BE CREATIVE. Consider a lease-to-own deal, which makes it easier for cash-strapped buyers to take the plunge.

2. FIND A HOOK. When Kelly Andrews, 28 and just married, decided to sell her one-bedroom condo in February, hers was one of about a dozen on sale in a 936-unit complex. Being in public relations, though, Andrews knew to play up the condo's one unique feature: its former owners. So she called up a reporter for the local paper and told a tale of how she and the two prior owners of unit No. 163 were single women who ended up finding their future husbands there. After the paper dubbed Andrews' unit "Cupid's Condo," she was flooded with calls from single women (and agents representing them). One of those women offered to lease the unit for the precise amount of Andrews' mortgage payment. She thought this might work out even better than an outright sale, since leasing would allow her to build equity while waiting for the market to improve (Andrews hopes she can sell at a higher price).

The lesson: Highlight what makes your house special. Generic descriptions about "spacious bedrooms" or "modern appliances" are too common. Instead, "paint a lifestyle, a story". And be as specific as you possibly can. Don't simply mention that your home is near local amenities. Let buyers know they can live within "a five-iron shot of the 15th tee."

3. IT HELPS TO MARKET. The fact is, 84% of buyers search for homes online, more than double the percentage that did so in 2001. In addition to traditional spots like Realtor.com, check out alternative sites where buyers are flocking, like Craigslist.org, Realestate.yahoo.com, Zillow.com, Trulia.com and Base.google.com, Google's classified section. Because many home seekers are getting to these sites through a search engine, it's critical to offer a comprehensive description of your home, so searches will find you through any number of listed features. A simple way to generate word of mouth offline: In addition to basic marketing fliers, make up business cards with a picture of your home, contact info and the price. Cards are easier to hand out and be passed around than fliers.

4. One of the most overlooked items is **Financing Options Flyers**. They provide potential buyers some idea of what income will be required by the lender, what the mortgage payments will be (including taxes and insurance, etc.) and of course what loan programs are available and the current interest rates.

5. DON'T JUST SELL—SWAP. Consider swapping your home. The idea is simple. Look for like-minded sellers who'll need a new place to move into once they close their own deals. In the past year, free websites such as

DomuSwap.com and GoSwap.org, along with paid services like OnlineHouseTrading.com ($19.95 to list), have cropped up to bring home swappers together. Keep in mind these services are still new. A recent search on DomuSwap showed a listing of 1,021 Florida homes but only 43 in New York. Once you post details of your property—and what you're looking for in a new home -–these sites will ping you back with a list of houses that come close to your wish list whose owners are interested in a property like yours. If you find something you like, just click on it and send the owner a message. Once a match is made, the transaction can move quickly. Within four days of posting their home on DomuSwap, one couple was contacted by a prospective buyer. And nine weeks later, the deal closed.

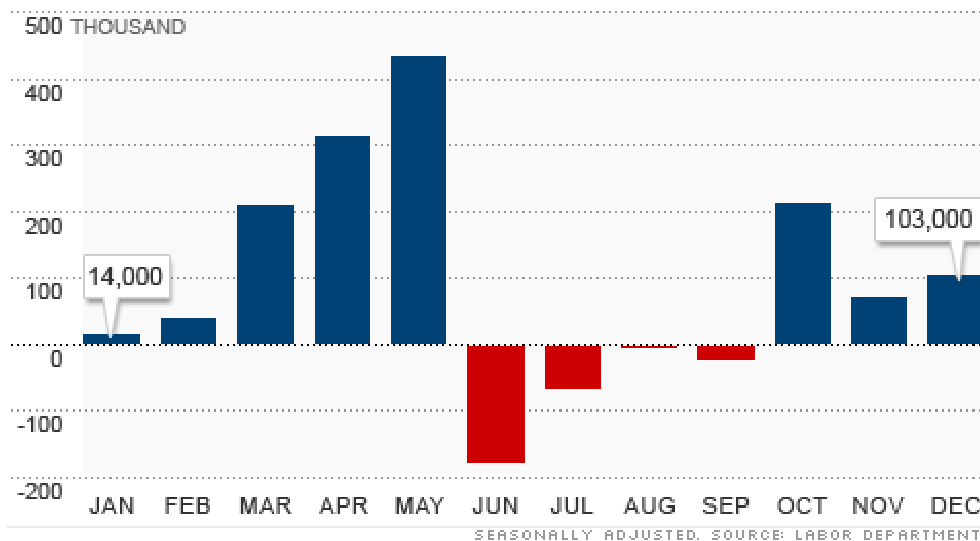
Keep in mind, you don't have to trade for equivalent value. While it's called a swap, it's really two separate transactions, where both trading partners take out mortgages based on the price they agree to pay.

6. LOCK IN A FUTURE BUYER NOW. With banks tightening lending standards, your problem might not be finding an interested buyer; it could be attracting a buyer with the means to purchase your home. One option is to give the buyer time to improve his credit or save for a bigger down payment through a lease-to-own contract.

Here's how it works: You agree to rent the property to the interested buyer. At the end of the lease, which normally lasts 18 months or less, the buyer has an option to purchase at an agreed-upon price. With the help of an attorney, you can draft these contracts however you see fit. Some homeowners, for example, charge a nonrefundable "option fee," as much as 2% of the home's value. This fee, if the renter buys, is typically applied to the down payment, and in the event that he decides not to purchase the property it is forfeit to the seller.

DECEMBER JOBS NUMBERS: A CONUNDRUM FOR SOME

As the nation added just 103,000 jobs in December, less than the number needed to keep pace with population growth, it was confusing to many people how—at that rate—the unemployment rate could drop from 9.8% to 9.4%. The answer stems from the fact that the numbers come from

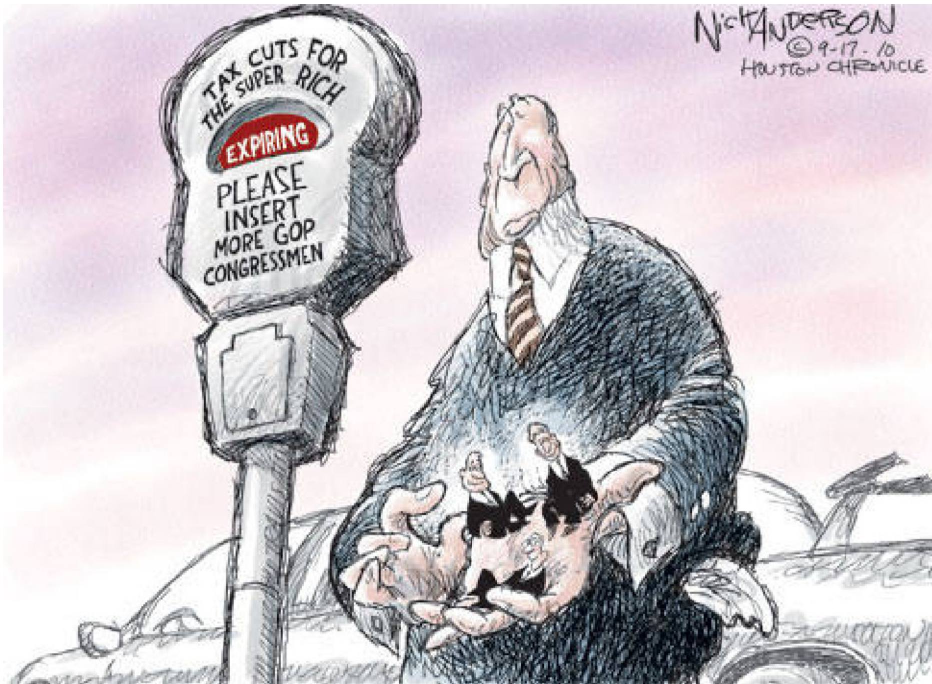


two different surveys. The former, the payroll number, comes from a survey of employers and the unemployment rate, comes from a household survey. The latter number includes only workers who are actively looking for jobs, and not the so-called "discouraged workers" who have given up their job searches. Discouraged workers in December amounted to 1.3 million persons that were pared from the unemployment rate calculations. Economists were expecting the unemployment rate to ease to 9.7%, from 9.8% in the previous month, but roughly 260,000 adults dropped out of the labor force for various reasons, and were no longer counted as unemployed by the government.

The government continued to shed staff, cutting 10,000 workers. While positive job growth still brings some hope for 2011, there's still a long way to go to recover the 8.5 million jobs lost since the Great Recession began. Overall, the economy rounded out 2010 with 1.1 million jobs added, the best year for hiring since 2007. And job growth is still trending upward, albeit very slowly, with an average of 128,000 jobs a month added in the last quarter of the year.

2010 TAX CUT PUSHES
2011 DEFICIT TO $1.5 TRILLION

The federal deficit for 2011 will hit $1.5 trillion, driven higher by the "slow and tentative" economic recovery and the bipartisan tax cut deal passed late last year, the Congressional Budget Office said Wednesday. The new Republican majority in the House adopted new legislative rules in the name of deficit reduction. The new rules require that every dollar of new spending to be offset by cutting a dollar somewhere else—but do not require the same for tax cuts, which also swell the deficit. The pay-as-you-go rules have been replaced by "cut as you go" rules. So-called cut-go requires that all new mandatory spending be offset with cuts, but tax cuts, which also reduce revenue, don't have to be.

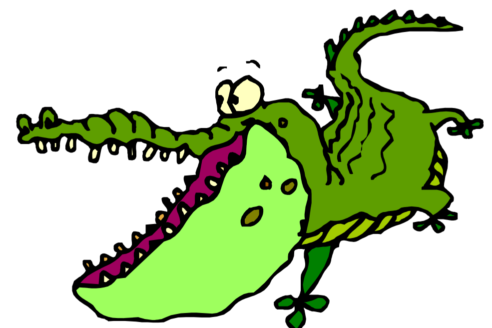


To provide some perspective on government spending, it can perhaps best be understood as a percentage of GDP: It grew from 3.4 percent of GDP in 1930 to 43.6 percent during World War II; it hovered around 20 percent since the mid-1990s before it increased to 23.8 percent this year. Annual government revenues (or the total amount of taxes collected), meanwhile, were as low as 2.8 percent of GDP in 1932 and as high as 20.9 percent in 1944. Over the past decade, revenue has averaged about 17 percent and, because of the recession's lingering effect on unemployment and income, is expected to dip to 14.6 percent this year. That's a 9 percent difference, in other words, between what the government is spending and what it's collecting.

THE FAILURE TO ADDRESS 'TOO BIG TO FAIL' (COMMENTARY)

There is an old saying: lend a business $1,000 and you own it; lend it $1 million and it owns you. In the fall of 2008, the Treasury Dept, the Federal Reserve and the FDIC lent hundreds of billions of dollars in TARP funds to the nation's largest banks. It was feared that were they not to bailout mega-banks like Citibank and financial institutions such as AIG that an ensuing failure would trigger subsequent, multiple failures throughout the capital markets. When borrowers are in financial peril there are usually conditions attached to loans made to them. Yet, the TARP funds provided to the banks, insuring their solvency and unthawing the credit markets came with "no strings attached", other than their promises to repay the loans.

Ironically, the largest banks used these tax-payer funds to expand their market share and go on buying sprees Thus, Bank of America acquired Countrywide and Merrill Lynch. JP Morgan Chase took over Bear Stearns and bought up Washington Mutual and Wells Fargo absorbed Wachovia. Only Citibank, once the world's largest bank, failed to increase in size owing to its need for a $26 billion bailout. The net result of this consolidation was that the big banks got even BIGGER. Today, the five largest financial institutions are now 20 percent larger than they were before the crisis and control $8.6 trillion in financial assets—the equivalent of nearly 60 percent of gross domestic product. But not only are they too big to fail, they're also too big to succeed. Studies show that most operational efficiencies are captured when financial firms are substantially smaller than the largest ones are today. Now more than ever, these financial institutions have become "too big to fail" and their increased size further jeopardizes our economic system. It's no longer a case of the tail wagging the dog; it's as though the metaphorical dog has morphed into a crocodile—an entity with a much, much, bigger tail.



Most Americans are unaware to the extent that our economy is in the thrall of these "too big to fail" institutions. By their becoming even bigger, the onus of moral hazard looms ever larger. Moral hazard is the concept that monolithic lending institutions are exempted from normal market risks because the lender of last resort, either the Federal Reserve, domestically, or the International Monetary Fund, globally, will bail out these troubled firms because to do otherwise, would risk system-wide collapse.

It was not always thus. America emerged from the Great Depression with a tightly regulated banking system. The regulations worked: the nation was spared major financial crises for almost four decades after World War II. But as the memory of the Depression faded, bankers began to chafe at the restrictions they faced. And politicians, increasingly under the influence of free-market ideology, showed a growing willingness to give bankers what they wanted.

The first big wave of deregulation took place under Ronald Reagan—and quickly led to disaster, in the form of the savings-and-loan crisis of the 1980s. Taxpayers ended up paying more than 2 percent of G.D.P., the equivalent of around $300 billion today, to clean up the mess. But the proponents of deregulation seemed to have very short memories, and in the decade leading up to the current crisis, politicians in both parties bought into the notion that New Deal-era restrictions on bankers were nothing but pointless red tape. So, in 1999, Congress, with encouragement from academics and regulators, repealed the Glass-Steagall Act, the Depression-era law that had barred commercial banks from undertaking the riskier activities of investment banks. Following this action, the regulatory authority also significantly reduced capital requirements for the largest investment banks.

After the repeal, banks were allowed to make money not only by lending it out at interest, but also by running hedge funds and other speculative operations. Less than a decade after these changes, the investment firm Bear Stearns failed. Bear was the smallest of the "big five" American investment banks. To stem the damage its failure might cause, billions of dollars in public assistance was provided to support its acquisition by JP Morgan Chase. Soon other large financial institutions were also found to be at risk. Institutional greed, lax regulation and huge losses by banks in the trading of financial securities, especially mortgage-backed assets precipitated the credit crisis in 2008 according to the report issued this past week by the Federal Crisis Inquiry Commission (FCIC).

Last summer, the Financial Reform Act of 2010 (a.k.a. the Dodd-Frank Act) was passed. The President acknowledged it was far from comprehensive when he observed that, "we should not let the perfect be the enemy of the good." Dodd-Frank sought to undo some of the harmful consequences that stemmed from the repeal of Glass-Steagall. It also attempted to shine a light on complex financial products called derivatives. (Derivatives are bets on the rise and fall of other financial instruments, including interest rates, mortgages and commodities). The bill forced banks to trade derivatives on clearinghouses and exchanges thereby providing greater transparency so that their value was more evident because without honest valuations, markets do not clear. The law ensures that some, but not all, derivatives would have to be traded on exchanges and that some, but not all, of the banks' proprietary trading would be curbed and that some, but not all, of their private-equity and hedge funds would be shuttered or spun off. Among Dodd-Frank's other directives, it requires lenders to hold on to 5 % of risky debt that's been securitized, It also seeks to rein in the 60 TRILLION dollar credit default swaps market that was AIG's undoing.

Despite Dodd-Frank, some of the most egregious excesses still abound—the largest firms are again operating with relative impunity. Both former Fed Chairmen Paul Volcker and Alan

Greenspan believe the Fed should have the power to dismantle big banks that pose a systemic risk to the economy. Volcker argued that, since their deposits are federally insured, the big banks were enabled to take bigger risks for which the taxpayers bore the cost. He insists that this incentive structure was not only unfair but also at the root of the current crisis: Bankers and traders still have the same irresponsible, accountability-free incentives they have had for the past 40 years to generate as much revenue as they possibly can each year, regardless of the consequences. Their bonuses and compensation reflect success, not the reality of recent failures.

Dodd-Frank missed plum opportunities to change Wall Street's incentive structure, which is a shame, since it would not have been difficult. Human behavior is pretty simple actually. We do what we are rewarded to do. On Wall Street, people are hugely compensated for generating revenue, which they do by selling products and to take the risks others don't want to take. These days on Wall Street, around 50 percent of every dollar of revenue generated is paid out to its employees in the form of compensation. No other business on earth does this.

Nevertheless, Wall Street has demonstrated time and again that its compensation practices lead to excessive risk-taking: Namely, the way Wall Street's armies kept selling mortgage-backed securities filled with defaulting home mortgages long after the securities made any sense as an investment. Wall Street did the same thing in the 1980s with junk bonds, again in the 1990s with Internet initial public offerings, and the same thing in the early 2000s with the debt of emerging telecommunications companies. Hence, we're no better protected from bankers' potentially reckless behavior than we were before the latest round of reforms.

Since we are still in the throes of recovering from the greatest financial meltdown in 80 years, it is hard to fathom that anyone would object to financial reform other than special interest groups that were the object of the reform. So how is it possible that post-crisis legislation leaves large financial institutions still in control of our country's economic destiny? One answer is that they have even greater political influence than they had before the crisis. Despite the major banks bringing the financial system to the brink of collapse and requiring a $700 billion bailout, during the past decade the four largest financial firms spent tens of millions of dollars to hire armies of lobbyists to beat back the most serious threats. The industry, as a whole spent $2.7 billion.

While Dodd-Frank addressed some major financial concerns, it still fails to address the most egregious problems—such as too big to fail and the unclear status of the housing GSEs, Fannie Mae and Freddie Mac, which together own or guarantee half of all U.S. mortgages. An absence of accountability and blatant inequities in treatment are why Americans remain angry. Without accountability, we cannot hope to build a national consensus around the sacrifices needed to eliminate our fiscal deficits and rebuild our economy. In the end, our financial system only works when there are clear rules and basic safeguards that prevent abuse that check excess, that ensure that it is more profitable to play by the rules than to game the system.

What can be done to remedy the situation? After the Great Depression and the passage of Glass-Steagall, the largest banks had to spin off certain risky activities, and this created smaller, safer banks. Taking similar actions today to reduce the scope and size of banks would restore the integrity of the financial system and enhance equity of access to credit for consumers and businesses. More financial firms—with none too big to fail—would mean less concentrated financial power, less concentrated risk and better access and service for American businesses and the public. The days of privatizing the profits for Wall Street and socializing the risks or insulating them from failure needs to end.

RATE SUMMARY:

Rates IMPROVED SLIGHTLY, this month.

***Conventional conformings—DOWN by an 1/8th**
***Jumbos—NIL CHANGE**
***Governments (FHA/VA)—BETTER by an 1/8th to a 3/8**

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.

SPECIAL(S) OF THE MONTH:

Conforming 30-yr. fixed @ 4.625%
Conforming 5/1 ARM @ 3.125%
Conforming 5/1 I/O ARM @ 3.375%
Home Ownership Accelerator @ 3.36%
5/1 Jumbo @ 3.90%

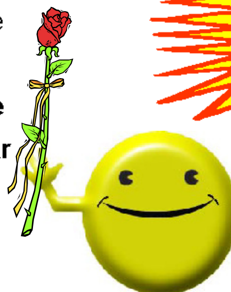
MORTY'S MAILBAG

Q. I read one month that home sales are up 10% and then a few days later I see somewhere that they are down 5% and a few days after that someone is reporting that they're up by 8%. I don't know who or what to believe when it comes to these statistics.

A. Since I didn't see a question posed here, I assume you were looking for a comment or observation on my part. First of all, I empathize with your frustration because I too have noticed these seeming anomalies. The truth lies with the credibility of your sources and how carefully you are reading what they are reporting. In this issue's THE MONTH IN REVIEW for the week of **1/17-1/21** I reported that "**Southern California home sales declined almost 13 percent in December from a year earlier"** and in the same paragraph "**Sales of previously-owned homes jumped 12.3% in December**" which might seem contradictory until you read the items more closely. The 13% decline was for **ALL** home sales in **SOUTHERN CALIFORNIA.** The 12.3% increase was for sales of **PREVIOUSLY-OWNED HOMES NATION-WIDE**. Still, one might say how can this be? Very easily, the Southern California housing market fared poorly in December, but as such it is only a subset of the national housing market. Similarly, **PREVIOUSLY-OWNED** homes are a subset of **ALL** homes. Obviously, this subset would not include new homes, but it would include foreclosures since they were previously-owned (a.k.a. existing home stock).

Also, note that for the week of Jan. 24-28 that while **NEW HOME SALES** jumped a reported 17.5% in December, 2010 was the worst year for **NEW HOME SALES** in 47 years. Hence, it is crucial that one read such statistics carefully so as not to get a misleading picture of the information being presented

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

The doctor took Dan into the room and said,

"Dan, I have some good news and some bad news."

Dan said, "Give me the good news."

"They're going to name a disease after you."

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

NEXT ISSUE'S TOPIC:
HAS THE HOUSING MARKET BOTTOMED?