Newsletter - Vol. 8 Issue 8
August 2011
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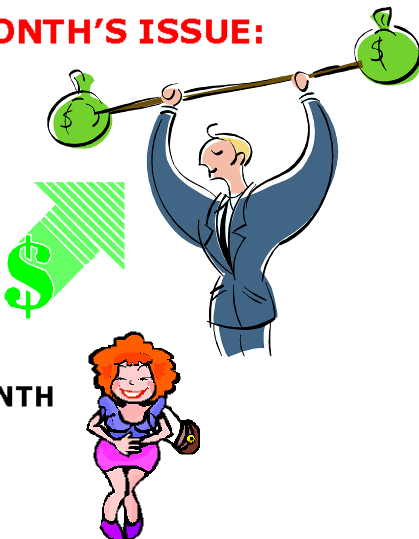

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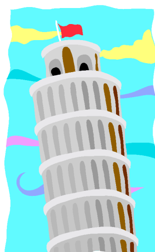
THE MONTH IN REVIEW

7/1 **The month of July started off with the stock market soaring, up 168-**points on news that the Institute of Supply Management's manufacturing index jumped to 55.3 in June—well above the 51.1 that economists had expected.

7/4-7/8 **The Commerce Department said factory orders rose 0.8% in May, after falling 0.9% in April.** Economists were expecting orders to edge up 1%. **Moody's downgraded the government debt of Portugal to BA2 from BA1 and gave them a negative outlook. The Institute for Supply Management said its non- manufacturing index fell to 53.3 in June from 54.6 in May. That's still above the level indicating expansion in the sector. The Labor Department's jobs report showed the U.S. economy created only 18,000 jobs last month, a fraction of the 120,000 jobs that were forecast. June's unemployment rate rose to 9.2%from 9.1%.**

7/11-7/15. **U.S. stocks sank 151-points Monday** as investors got spooked by worries that Europe's debt crisis could spread to Italy, one of Europe's largest economies. **U.S. stocks ended near session lows Tuesday after Ireland's**



credit rating was cut to junk by Moody's Investors Services. Southern Calif.'s home sales for June rose 11.6%, driven by first-time buyers and investors scouring the market for bargains, according to DataQuick of San Diego. **Moody's,** the credit rating agency, **warned** late Wednesday that because of the "rising possibility" that Congress will fail to raise the debt ceiling in time -- something that could lead to a U.S. default and **the U.S. could lose its "AAA" rating** on its debt. Standard & Poor's added to the gloomy chorus Thursday. The University of Michigan **consumer sentiment survey unexpectedly fell to a reading of 63.8 in July**, versus the 71.4 reading that economists had forecasted.

7/18-7/22 Stocks were in full-on sell mode Monday, as **uncertainty over the U.S. debt ceiling and worries about European debt pushed the Dow down 94-points**. Housing showed a glimmer of progress as **new homes starts rose in June, a 14.6% increase over May's numbers**. The Commerce Department also reported that **building permits for June were 2.5% above May's levels. The Dow industrials soared 202-points Tuesday** after President Obama indicated that lawmakers are closer to reaching an agreement on raising the debt ceiling. The National Association of Realtors said **EXISTING home sales declined 0.8% in June** to an annual rate of 4.77 million. **There were 418,000 initial unemployment claims filed in the week ended July 16,** the Labor Department said Thursday.

7/25-7/29 Stocks closed 88-points lower Monday as investors awaited news of a deal on the debt ceiling limit. For the second day in a row**, the Dow dropped another 91 points over unresolved debt-ceiling talks. In May, the S&P/Case-Shiller home price 20-city index gained 1% compared with a month earlier,** while the 10-city index rose 1.1% month- over-month. **Sales of NEW homes slipped for a second straight month in June**, unexpectedly falling 1%. **Stocks fell another 199 points Wednesday** (379 points thus far this week) as Congress made little progress toward raising the debt ceiling, and an economic report showed a significant slowdown in the U.S. manufacturing sector. Worries about the impending debt ceiling deadline pushed **U.S. stocks down another 62-points for the fifth straight day of losses. The number of first-time filers for unemployment benefits fell below 400,000 for the first time since early April.**

THIS ISSUE'S TOPIC:

Hard Money Loans

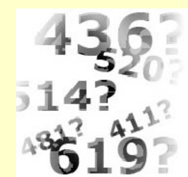
Every so often borrowers have situations (foreclosures, bankruptcies, tax liens, etc.) arise where they're in need of what I call "Fedex" loans, where the money "absolutely, positively has to be there" and more or less "overnight". That's when the services of a hard money lender is required. They can be super-quick, some can be obtained in as little as a day or two. Their services don't come cheap: no one borrows money at these rates but under the most exigent of circumstances. But as the saying goes, "when you gotta have it, you gotta have it!"

If you own real estate, **hard money lenders** will make loans that you couldn't obtain anywhere else. They may be lending companies or private investors, generally in their local areas. Because of the costs associated with these loans they are generally regarded as lenders of last resort. Like Johnny Carson's oily pitchman, Art Fern, if you're in bankruptcy, if you're in foreclosure, if you have no FICO score, "they don't care". Most don't require Verification Of Employment (VOE), a Verification Of Deposit (VOD), a Verification Of Mortgage (VOM), a Verification Of Rents (VOR) a business license or CPA letter if you're self-employed, and there's no seasoning for cash. It's all NO PROBLEM!

Understandably, people often ask why it's called "hard money" if so little documentation is required. The answer, simply put, is that among investors, money is deemed to either be "soft" or "hard" based on the cost to obtain it and the terms associated with it. Typically, soft money is cheaper and the terms are flexible. Hard money, on the other hand, is just the opposite: It is dearer, which is not to say that it's more difficult to obtain, but it is more restrictive. It used to be that hard money lenders would lend solely based on a percentage of the property's fair market (or appraised) value. Consequently, in the event of a default, the only protection afforded the lender lay with the collateral value of the real property. Because most hard money comes from private individuals it also accounts for why hard money is also referred to as "private money". The money used for investment purposes comes from people, just like you and me, not a commercial bank or deposit institution.

But now, because new lending laws offer more consumer protection, hard money lenders have to consider more than just equity before agreeing to lend because abiding by the new laws is more time consuming and expensive.

Several states' usury laws prevent hard money lenders from operating in their accustomed fashion. **Regulation** of hard money not only differs by state, it differs by the status of the borrower in terms of whether or not the loan is made to a business or to a consumer. Consumers generally have additional protections in individual states. Some of the most aggressive loan terms are issued by commercial hard money lenders. In addition, the type of property (non-owner occupied vs. owner-occupied) being lent upon may also be a factor in determining if a state's usury laws allow for legal hard money lending.



Hard money is more expensive because the loans are inherently riskier since are not based upon traditional credit guidelines that conventional banks utilize to minimize their default rates. As already noted, with a hard money loan the **credit score** of the borrower is of little or no importance, as the loan is secured only by the value of the real property. Hard money lenders will do 1st & 2nd trust deed loans and loan amounts ranging from $100,000 to $2,000,000, although some lenders will decline 2nds under $417,000 (recently changed from $250,000) because of Section 32 (predatory lending laws). The one overriding condition for

doing a hard money loan is Loan To Value (LTV). Most lenders will extend credit in the range of 55%-65%, with an **LTV of 60%** being the norm. The low LTV provides added security for the lender, in the event that the borrower does not repay the loan and it becomes necessary to foreclose on the property. Generally speaking, they'll loan against residential properties, condos & townhouses, and they'll provide funds for lot loans, bridge loans, construction loans, and small apartment buildings. Most are OK with cross-collateralization and multiple borrowers.

Hard money collateral is typically the real estate loaned on. Sometimes it may include other assets of the individual or business borrowing the hard money. In certain situations, a lender may be willing to lend up to 65% ARV (after repaired value). This means that a hard money lender can loan you up to 65% of what the home is worth in repaired condition. So if you find a home worth $45,000 in "as is" condition that needs $20,000 in repair work, and its post-rehab market value would likely be $100,000, then they MIGHT lend you up to $65,000, which would cover the cost of the house and the repairs, but in such a case the lender would likely want you to title it over to them until it sold because they ordinarily prefer that you to have some "skin in the game". In some cases the money needed by the borrower may exceed the percentage the lender is willing lend on the subject property. In those instances the solution is for borrowers to offer additional real estate as collateral in order to obtain a larger loan amount. This is known as **Cross-collateralization,** whereby the collateral for one loan is also used as collateral for another loan. The cross-collateralization ends only when the borrower has repaid the outstanding loan, until such time the cross-collateralized property remains encumbered.

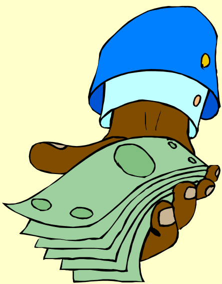
Borrowers opt for a hard money loan for a variety of **reasons**. Most often, it's because the borrowers' are in distress and financing is unavailable from conventional lenders due to poor credit resulting from credit "lates", a bankruptcy or where foreclosure proceedings are involved. Sometimes, it's simply because of inability to provide the documentation typically required for a conventional loan. In a few cases, a hard money loan is sought because of a business opportunity where time is of the essence. Yet another reason for hard money financing would be to obtain a **bridge loan** (also known as a swing loan) which is a type of short-term loan, typically taken out for a period of 2 weeks to 3 years pending the arrangement of larger or longer-term financing. An example would be where a homeowner is purchasing a new home, but has not yet sold his old home and needs the money from the pending sale to qualify effect the new purchase. The term, however, for a typical hard money loan ordinarily ranges from 6 months to 5 years.

Other considerations are how quickly funds will be available. Many times, when an investor finds an investment property, there is a need to move quickly and the ability to have access to funds can make all the difference. Hard money lenders are swift. Because they do not require the income and asset verification that typical lenders require, they can close a loan in a matter of a few days as opposed to the month or more that would be required with a conventional lender. While both hard money loans and bridge loans have similar lending criteria, as well as costs to the borrowers. The primary difference with a bridge loan is that it often refers to a commercial property or residential property that may be in transition and does not yet qualify for traditional financing, whereas a hard money loans typically refers to only an asset-based loan with a high interest rate.

So what does one have to pay for all this speed, convenience and lack of documentation? Cheap they aren't—the **rates range from 9-15% straight interest**. Additionally,hard money lenders will charge anywhere from **4-10 points** as an **origination fee**. (One point equals one percent of the mortgage amount). So charging 1 point on a $100,000 loan would be $1000. As David Zigrang of Seaside Funding stressed to me, "The pricing for a loan is on a case by case basis." Typically, the actual interest rate and points are dependent upon a range of requirements: the percentage of loan-to-value, the type of real estate and the minimum loan size.

So what is needed to do one of these loans? Usually, only an application (form 1003), a credit report (for purposes of determining ability to repay the loan), a preliminary title report and an appraisal (the last 3 items vary according to lender) is required.

Commercial hard money is a term describing a commercial loan that is generally non-bankable, meaning the company usually does not meet the standard banking criteria, but has real estate and or assets that are sufficient to collateralize the loan to the investors/lenders. Commercial hard money is issued to a business entity or individual signing on behalf of a business entity or corporation. It can be secured against a commercial property or residential investment property. (Note: commercial hard money lenders are often willing to go to 70% LTV on commercial property because the rents provide cash flow and added protection for the lender). It can also be secured against a residence in conjunction with a business property as a means of obtaining additional collateral for the lender. That type of additional security is referred to as a blanket mortgage. The sources of asset based commercial hard money loans are generally the following:



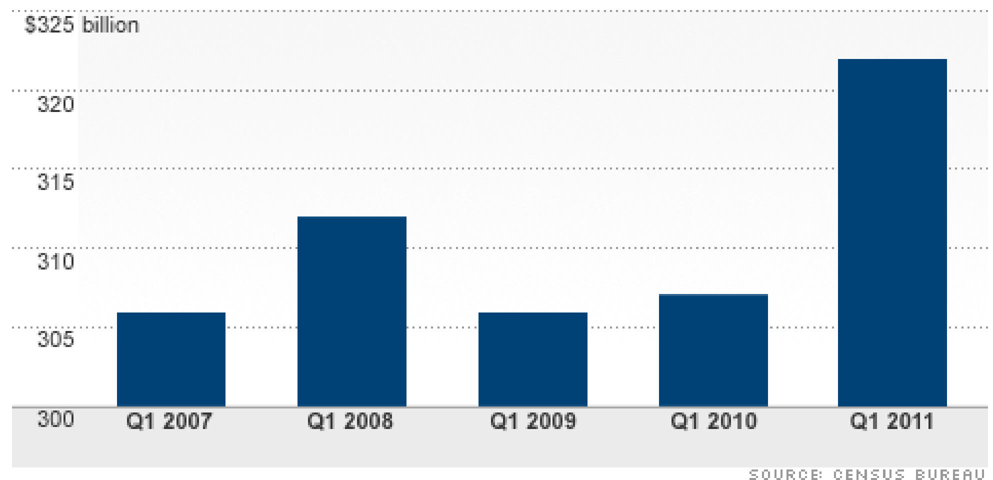
- 1. Private Individuals
- 2. Mortgage Companies
- 3. Federal Banks
- 4. SBA Lenders

These different commercial hard money lenders have their respective pluses and minuses. For example, a private individual may offer special terms, yet in the event of a delinquency may be unwilling to offer a work out plan as a matter of procedure. One also needs to be consider pre-payment penalties. A federally-chartered bank may offer a competitive loan rate in comparison to an individual, but may demand a high pre-payment penalty fee, costing the borrower more money if they decide to sell or refinance the loan within one to five years.

STATE AND LOCAL TAX REVENUE ON THE RISE

First the good news: State and local tax revenues climbed 4.7% in the first quarter, fueled by a surge in personal income taxes. Now the bad news: Property tax revenues fell 1.7%, the second straight quarter of declines. This does not bode well for local governments that depend on property taxes to fund operations.

The new Census Bureau data shows that things are looking up for state governments. Revenues have increased for six consecutive quarters, thanks to the recovering economy and stock market, as well as tax increases, according to IHS Global Insight. But income and sales tax collections remain 1.5% below their 2008 peak. Individual income taxes gained the most, up 11.9% compared to the same period a year ago. Sales taxes jumped 5.8%.



State and local tax revenue is on the upswing. Several states are depending on higher tax revenues to balance their budgets. **California Governor Jerry Brown** and legislative leaders on Monday released a budget proposal that hinges on the Golden State bringing in $4 billion more in revenue in the coming fiscal year. Municipalities, however, are still suffering from the economic downturn, particularly the collapse of the housing market. That's because it takes several years for property tax assessments to adjust, so the drop in home values is only showing up now. With property tax revenues representing a predominant share of local revenues, the foreseeable future looks grim for local governments as their tax base will continue to shrink because of falling property values.

RATE SUMMARY:

Despite all the turmoil surrounding the US debt ceiling talks, weaker than expected economic data and increased concerns about Europe mortgage rates have changed little this month. This is not to suggest that there is not great deal of volatility present as the debt ceiling talks have left investors with high levels of anxiety and the markets hate uncertainty.

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:

Conf. 5/1 ARM @ 2.75% (lowest rate)

Conf. 5/1 Interest Only ARM @ 3% (lowest payment)

Conf. 15 yr. fixed @ 3.375%

JUMBO 30 yr. fixed @ 4.875%

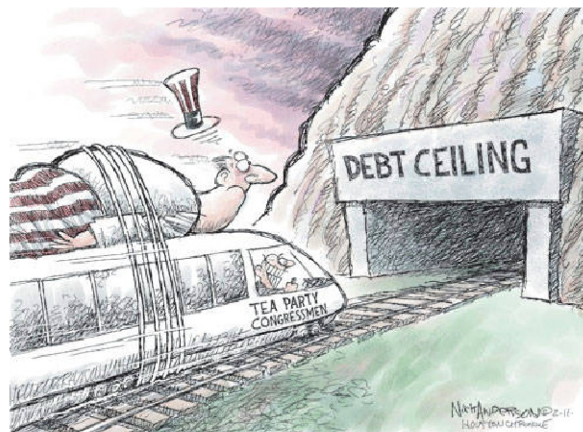
Home Ownership Accelerator @ 3.285%

MORTY'S MAILBAG

(Because there were no mortgage questions in the mailbag, this month I chose to respond to one very much in the news—the debate about raising the national debt limit).

Q. Inasmuch as your ideas about the economy don't seem to mirror the Left's or the Right's, I am curious about your take on the current debate about increasing the debt limit.

A. My position is one of economic pragmatism (and I believe on the right side of history, not the right wing of politics). As for the two parties, neither has demonstrated that they have a monopoly on the truth. While some of the Democrats in the Congress want to move in the appropriate direction, others seem spine-less, and the party as a whole, seems to lack the courage of its convictions. The Republicans, on the other hand, seem to be disingenuous ideologues hell-bent on winning the next election no matter the cost to economy or the country.



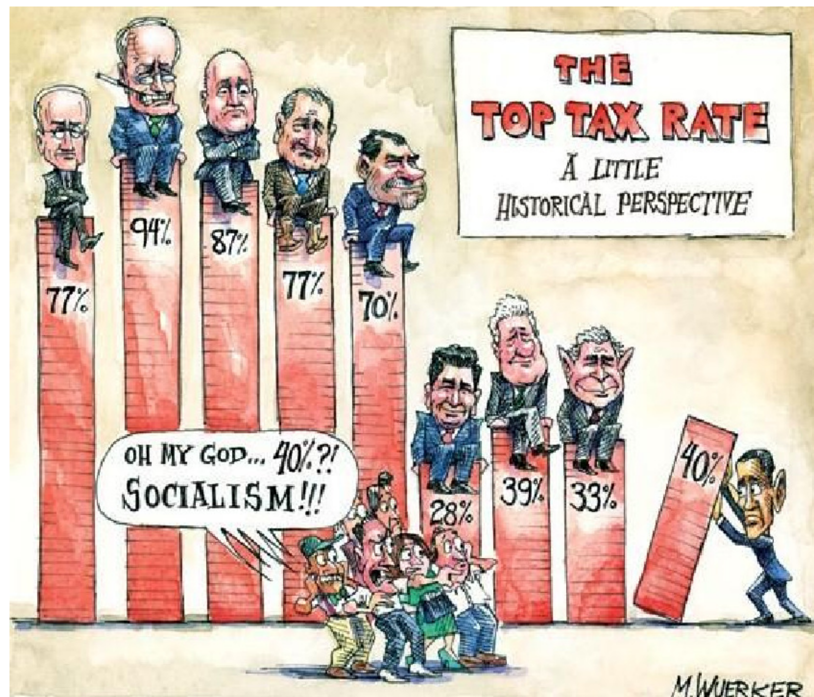
It's been said "there are two sides to every story," but in this case there is just one that's valid. News reports portray the parties as equally intransigent and equally wrong and equally at fault on any issue, never mind the facts. The Democrats have meekly acceded to the Right's demands of spending cuts and no revenue increases, yet the Republicans have remained intransigent in compromising and raising the debt ceiling until 2013. Given that there is little political will to institute an appropriate stimulus policy, the economy will be hobbling along for the next five years.

As regards the debt-ceiling, Moody's, the credit rating service, has suggested the U.S. would be better off if it were eliminated entirely. It notes the legislative process "creates periodic uncertainty over the government's ability to meet its obligations" and the limit has not effectively restrained spending. Nevertheless, the Right has wantonly misrepresented the basic truth about raising the debt limit: THE DEBATE IS NOT ABOT FUTURE SPENDING; IT IS ABOUT PAYING FOR DEBTS ALREADY INCURRED—the result of two unfunded wars, a costly Medicare prescription bill and tax cuts approved by both Republicans and Democrats at the behest of a Republican president.

On the fiscal side, Republicans are demanding immediate spending cuts as the price of raising the debt limit and avoiding a U.S. default. Yet, during the Bush administration, Congress, with little fanfare, voted to raise the debt ceiling no less than seven times as the administration added $5.07 trillion to the national debt during the Bush's administration. Now, Republicans who were largely responsible for creating the problem are feigning dismay over it.

This has led to the hypocrisy of Republicans condemning the crisis that they fostered, yet are refusing to fix. Speaker John Boehner said the poor job numbers were actually the result of the stimulus, regulations and the debt. He claimed that closing corporate tax loopholes and increasing the tax bite by 3% on the rich was "a jobs bill killer". During the past 10 years the nation has had the lowest tax rate in the past 50 years and it is also the lowest of any of the industrialized nations in the world, despite this, it has not produced the vaunted jobs that the Right ascribes to these same modestly-taxed "jobs creators" [rich]. There is a prevailing misconception that President Obama tried to stimulate the economy with a huge increase in government spending, and that it didn't work. To the contrary, the National Bureau of Economic Research acknowledged that the $787 billion stimulus bill that the Obama administration got through Congress, insufficient though it was; it technically brought about the end of the recession in June of '09. Because the stimulus was so much smaller than optimum, it was in one sense never actually tried. Think about it: Where are the big public works projects? Where are the armies of government workers? There are actually half a million fewer federal employees now than there was when Mr. Obama took office. So what happened to the stimulus? Much of it consisted of tax cuts, not spending. Most of the rest consisted either of aid to distressed families or aid to hard-pressed state and local governments. This aid may have mitigated the slump, but it wasn't the kind of job-creation program we could and should have had. This isn't 20-20 hindsight: some of us foresaw from the outset that tax cuts would be ineffective and that the proposed spending was woefully inadequate. And so it proved.

What I find astounding is that what's roiling Congress is a debate about paying our bills for debts already incurred and the Republican Party, "the party of business" is saying, "No!" The debt limit talks were misbegotten from the beginning, made necessary only by the irresponsible refusal of Republicans to pay the nation's bills unless they got everything their way on government spending and taxes. President Obama capitulated to these extortionate demands last December to prevent an economic stalemate. The result has been an economy that has been hobbled with high unemployment and mired in a rut for a year and half (the latter due to the insufficient size of the stimulus). Government has to spur demand and create jobs in a deep downturn, even though doing so worsens the deficit in the short run—spending cuts alone will not close the gap. The chronic revenue shortfalls from serial tax cuts are simply too deep to fill with spending cuts alone. Taxes have to go up. Moreover, if a sounder fiscal policy had been employed during the past decade we wouldn't be in the fix we're in.



There has never been any evidence that the federal debt is primarily responsible for the persistent joblessness that began with the 2008 recession. The numbers have remained high because of weak consumer demand and stagnant wage growth, along with an imbalance between jobs and job skills. Republicans have long tried to link unemployment and debt so that they can blame Mr. Obama for the poor economy, and build support for their ideological goal of cutting spending. There is plenty of evidence, in fact, that the spending cuts already imposed by Republican intransigence are responsible for a great deal of joblessness. Although the private sector added 57,000 jobs in June, that tiny progress was reduced by the 39,000 jobs shed by federal, state and local governments, much

of which came from education. Cutbacks in state and local spending have cost the economy about a million public-sector jobs over the last two years, in part because the federal stimulus program, bitterly opposed by Republicans, ended too soon.

The president may have a nebulous approach to unemployment, but he is hardly indifferent to it. His re-election hinges on reducing it. It is hard to understand, though, why Mr. Obama has adopted the language of his opponents in connecting the economy to the debt. To his credit, he talked about the one step that would work—investing money in rebuilding the country. But the debt-ceiling ideas he is now considering would make that investment much less likely by pulling hundreds of billions of dollars out of the economy at precisely the moment when the spending is needed most. It's also worth noting that in another area where government could make a big difference—help for troubled homeowners—almost nothing has been done. The Obama administration's program of mortgage relief has gone nowhere: of $46 billion allotted to help families stay in their homes, less than $2 billion has actually been spent.

While neither side is willing to touch the sacred cow that is the defense budget, the president is considering proposals to cut spending on Medicare, Medicaid and even Social Security, along with huge cuts in discretionary programs, in exchange for closing tax loopholes for corporate entities and the affluent. Democrats, meanwhile, are starting to bridle at the impending cuts, and several have said they cannot support an unbalanced package that demands sacrifices from the poor and middle class but not the rich. A fragile agreement based on blinkered ideology and political ambition could easily fail, and the resulting default and credit-market chaos would probably create another recession. Under those circumstances, Mr. Obama might want to consider the advice of several constitutional scholars who say Congress may not be able to put the government in default by refusing to raise the debt limit because the 14th Amendment says the public debt cannot be questioned. But if Republicans kill a deal because it raises a dime of revenue, or if Democrats will not support it because it leans too heavily on the less fortunate, then the constitutional option may look better than the recession option.

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

NOTE: I received this from a realtor friend, Peter Freundlich, (www.see-homes-online.com) which I can readily appreciate because life is so often funnier than fiction and we often seem to encounter people like this. What follows is purportedly from an actual exchange between a decedent's relative and Citibank personnel.

A lady died this past January, and Citibank billed her for February and March for their annual service charges on her credit card, and added late fees and interest on the monthly charge. The balance had been $0.00 when she died, but now somewhere around $60.00. A family member placed a call to Citibank.

citibank

Here is the exchange :

Family Member: "I am calling to tell you she died back in January."

Citibank: "The account was never closed and the late fees and charges still apply."

Family Member: "Maybe, you should turn it over to collections."

Citibank: "Since it is two months past due, it already has been."

Family Member: "So, what will they do when they find out she is dead?"

Citibank: "Either report her account to frauds division or report her to the credit bureau, maybe both!"

Family Member: 'Do you think God will be mad at her?'

Citibank: "Excuse me?"

Family Member: "Did you just get what I was telling you—the part about her being dead?"

Citibank: "Sir, you'll have to speak to my supervisor"

Supervisor gets on the phone:

Family Member: "I'm calling to tell you, she died back in January with a $0 balance."

Citibank: "The account was never closed and late fees and charges still apply."

Family Member: "You mean you want to collect from her estate?"

Citibank: (Stammer) "Are you her lawyer?"

Family Member: "No, I'm her great nephew.' (Lawyer info was given)

Citibank: "Could you fax us a certificate of death?"

Family Member: "Sure." (Fax number was given)

After they get the fax :

Citibank: "Our system just isn't setup for death.. I don't know what more I can do to help."

Family Member: "Well, if you figure it out, great! If not, you could just keep billing her. She won't care.'

Citibank: "Well, the late fees and charges will still apply."

(What is wrong with these people?!?)

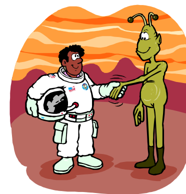
Family Member: "Would you like her new billing address?"

Citibank: "That might help...."

Family Member: "Odessa Memorial Cemetery, Highway 129, Plot Number 69.' Odessa, TX 79760"

Citibank: "Sir, that's a cemetery!'

Family Member: "And what do you do with dead people on your planet???"



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

NEXT ISSUE'S TOPIC:

TERMS—
15 vs. 20 vs. 30 vs. 40