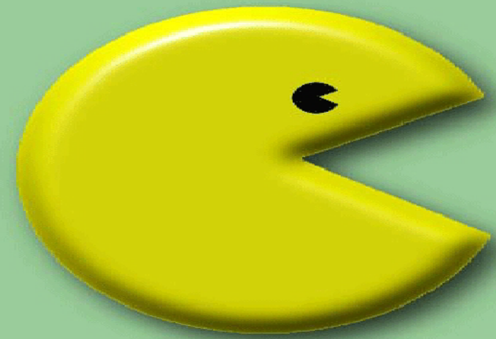

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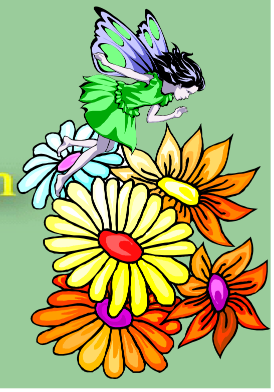

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THE MONTH IN REVIEW

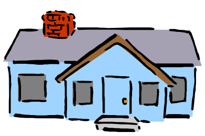
2/1-2/3 **According to the Case-Shiller Home Price indices, San Diego housing prices declined 0.9% in November, 2011 and 5.3% for the year. The Conference Board's Consumer Confidence Index, declined from 64.8 in December to 61.1. Friday, the unemployment rate fell to 8.3%, causing the Dow to jump 156 points, a 4 year high.**

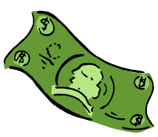
2/6-2/10 **The number of homes in foreclosure shrunk by 130,000, or 8.4%, in 2011**, according to a report from CoreLogic, an economic research firm. Initial **unemployment claims fell by 15,000 to 358,000 during the latest week**, a level near the four-year low hit in January. Economists expected 370,000 claims, compared to the previous week's 373,000. Consumer sentiment dropped more sharply than expected in February. The February edition of **the Michigan Consumer Sentiment Index fell to 72.5 from 75 last month.**

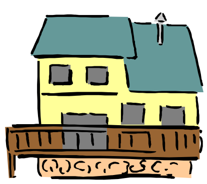
2/13-2/17 **President Obama unveiled a $3.8 trillion budget request Monday that hikes taxes on the rich, spends new money on infrastructure and education, but does little to reform the entitlement programs. The budget forecasts a deficit for fiscal year 2012 that will top $1.3 trillion, before falling in 2013 to $901 billion, or 5.5% of gross domestic product. Moody's cut the credit ratings of six European countries amid continued anxiety over the continent's debt crisis and its sluggish economy.** Italy, Malta, Portugal, Slovakia, Slovenia and Spain were all downgraded, while three other countries -- Austria, France and the United Kingdom -- had the outlook on their current Aaa ratings changed to "negative." **Retail sales were up 0.4% in January compared to December,** the Commerce Department reported. **Jobless claims plunged last week to a nearly four-year low,** in the latest bit of good news for the U.S. economy. Initial unemployment claims totaled 348,000 in the week ended Feb. 11, said the U.S. Department of Labor: that's 13,000 less than the week before.

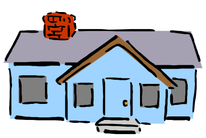
2/20- 2/24 The markets were closed for President's Day, Monday. **Oil for March delivery rose $2.64 to $105.88 a barrel.** If prices rise much above $100/barrel, it will dampen America's economic recovery. **Existing-home sales rose 4.3% in January to a seasonally adjusted annual rate of 4.57 million,** according to the National Association of Realtors. **The Labor Department reported Thursday that 351,000 people filed for initial unemployment benefits in the week ended Feb. 18**, unchanged from the previous week's revised 351,000 claims. The Census Bureau reported that the pace of **NEW home sales hit a seasonally-adjusted annual rate of 321,000 in January,** up from the previous reading for December and better than economists' forecasts.

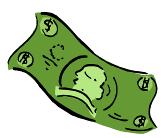
<u>2/27- 2/29</u> The Realtors' index of pending home sales rose 2% in January to 97. It was the highest reading since April 2010, when the index reached 111.3, as buyers were rushing to take advantage of the home buyer tax credit. **The Conference Board's consumer confidence index rose in February to the highest level in a year.** The index climbed to 70.8 from 61.5 in January. Economists were expecting the index to rise slightly to 63.5. **The government said the U.S. economy grew at an annual rate of 3% during the fourth quarter of 2011,** up from its initial estimate of 2.8%.

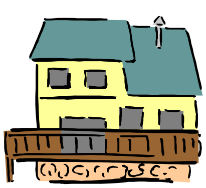


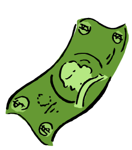












THIS ISSUE'S TOPIC: JUMBOS

LIMITS

By **"**jumbos" most of you know that I'm not referring to circus elephants here, but mortgages. The Office of Federal Housing Enterprise Oversight (OFHEO) sets the loan limit size on an annual basis various counties throughout the nation. The conforming limit (for most counties) is currently $417,000. Since jumbos exceed the conforming limit they are not eligible to be purchased, guaranteedor securitized by Fannie Mae or Freddie Mac.

There are, however, certain "high-cost" conforming areas in the U.S. that are specific exceptions to this rule. "High cost" areas are defined by the median sales price of a region and they range up to $729,750. In all, there are 197 of them, representing some 6% of the country. These excepted loans go by a variety of names: Agency Jumbos, Conforming Jumbos, Temporary Jumbos, and Conforming High Balance—they are all one and the same. They derived their various names for different reasons: they were called AGENCY JUMBOS because they are required to abide by the guidelines set down by Fannie Mae and Freddie Mac. They also came to be known as CONFORMING JUMBOS because they are LARGER than the ordinary conforming loan amount of $417,000 and their purpose was to provide niche financing for borrowers with more expensive properties. These loans also came to be known as TEMPORARY JUMBOS because these higher loan limits expired on 10/1/2011. As of 10/1/2011, the limit for High Balance conforming loans was reduced to $546,250 for San Diego County; $625,500 for Los Angeles and Orange Counties and $500,000 for Riverside and San Bernadino Counties.

But the loans under discussion, today, are true Jumbos, essentially everything larger than the county limits above up to $1.5 (or even $2.5 million, depending on the lender). Above the $1.5-$2.5 million range are the so-called super jumbo-loans that go up to $10 million.

SECURITIZATION & RISK

Jumbo loans are securitized by institutions other Fannie Mae or Freddie Mac.These securities more credit risk than those issued by Fannie Freddie, and therefore, trade at a yield premium translates into slightly higher interest rates. recent years, however, the spread in interest between jumbo and conventional mortgages been reduced.

Still, jumbo mortgage loans are a higher risk for lenders because if a jumbo mortgage loan defaults, it may be harder to sell a luxury residence quickly for full price. Luxury prices are more vulnerable to market highs and lows in some cases. This is one reason lenders prefer to have a higher down payment from jumbo loan seekers. Jumbo home prices can be more subjective and not as marketable to a mainstream borrower, two more reasons that many lenders may require two appraisals on a jumbo mortgage loan.

LTVs & CLTV

As you might expect, in these rarefied loan categories there are a number of restrictions and guidelines that apply. First off, the maximum loan to value (LTV) is 80% up to $2 million for one's primary residence where a purchase or a refinance is involved. Cash out is allowed up to 80% if the loan amount is under $1.5 million. If it is for second home, lenders are more restrictive and won't go any higher than 65% for the LTV on a purchase or a refinance.

The other LTV to be mindful of with a jumbo is the CLTV (or combined loan to value). Such is the case where a borrower needs more than a 1st mortgage for a purchase. In these instances, a 2nd mortgage, most often a HELOC (home equity line of credit) is called for as few lenders, if any, are writing 2nd mortgages these days with CLTVs above 80%. And there is no MI available for loan amounts above $546, 250 (depending on the county in which the property is located). Thus, someone needing $1,000,000 for a purchase could conceivably have a 1st mortgage for $800,000 and a HELOC 2nd for $100,000 which would give them a combined CLTV of 90%, with $100,000 as the required down payment on a million dollar property.

ELIGIBLE PROPERTIES

Generally speaking almost all homes are eligible for jumbos which includes SFRs (single family residences, duplexes (1-2 units), PUDs (planned unit developments), and detached condos. As for acreage, some lenders will go up to 15 acres.

FICO REQUIREMENT

A FICO score of 700 is the typical threshold for a jumbo loan.

TYPES AND TERMS

Jumbos fall into two categories: either fixed rate or adjustable rate loans (ARMs). With the former, jumbos are available in 10-30 year terms with 5 yr. increments. The latter are all 30 year terms and the available offerings are 3/1, 5/1, 7/1 or 10/1s which means that the interest rates remain fixed for the first number in the designation and are adjustable once per year (the second number listed) after the fixed rate period had elapsed.. There are a few variations on this like a 5/6 which means that the interest rate would remain fixed for 5 years and the rate could adjust every 6 months after the fixed rate period had elapsed.

PRICING

Right now, the pricing for jumbos is unbelievably attractive. Both fixed rate and ARM pricing is available at rates that would have been enviable for conforming loan amounts. Among the fixed rate pricing I had a 30 yr. fixed available earlier this month at 4.125%. As for ARM programs, even more unbelievable was the 5/1 ARM that a major lender was offering at 2.375% which was 0.125% lower than what that same lender was offering for a conforming rate program?

DEBT-TO-INCOME RATIOS (DTIs)

For owner-occupied purchases and refinances, lenders will permit debt-to-income ratios up to 45%.

RESERVES

With loans of this size, lenders generally required 6 months in liquid assets for reserves.

SUMMARY

Other than a few of the afore-mentioned characteristics, there's nothing terribly different from any other conventional loan—they're just bigger.

HOME BUYING: MOST AFFORDABLE IN DECADES

Buying a home is now more affordable than it has been in the last twenty years. Thanks to continued declines in home prices and rock-bottom mortgage rates, the National Association of Home Builders/Wells Fargo Housing Opportunity Index hit a record level of affordability. According to the index, 75.9% of all new and existing homes sold during the fourth quarter of 2011 could have been comfortably purchased by families pulling down the national median income of $64,200. That was the highest percentage recorded in the 20-year history of the index, and a sharp increase from just three months earlier when 72.9% of all homes sold were considered affordable.

Unfortunately, being able to afford a home and actually being able to buy one are two different matters entirely. According to Barry Rutenberg, chairman of the National Association of Home Builders (NAHB) and a home builder from Gainesville, Fla., potential home buyers are still finding it difficult to land mortgages. While the report indicates that home ownership is within reach of more households than it has been for more than two decades, overly restrictive lending conditions confronting home buyers and builders remain significant obstacles to many potential home sales.

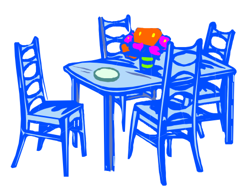
Youngstown, Ohio is the most affordable major metro area in the nation to buy a home, according to the NAHB. The faded steel town, located in eastern Ohio, could be on the verge of an economic renaissance with new gas drilling techniques that could help exploit nearby gas reserves, according to the report. There, 95.1% of homes sold during the quarter were deemed affordable to typical local households earning the area's median family income of $54,900. The other metro areas near the top of the list included Lakeland, Fla., Modesto, Calif., Harrisburg, Pa., and Toledo, Ohio.

Among small housing markets, Kokomo, Ind. had the highest housing affordability index with more than 99% of all homes sold there affordable to typical families. Fairbanks, Alaska, Cumberland, Md., Lima, Ohio, and Rockford, Ill. were all very affordable as well.

New Yorkers could only shake their heads at the housing opportunities available outside their metro area. Just 29% of the homes sold in the New York metro area during the last three months of 2011 were affordable for the typical local family. That's the lowest level in the U.S.—even though locals typically earned $67,400, roughly $3,000 more than the national median. It was New York's 15th consecutive quarter as the least affordable metro area. Nearly as expensive are housing markets in Honolulu, San Francisco, Santa Ana, Calif., and Los Angeles.

NINE REMODELING TIPS TO MAKE YOUR HOME FEEL BIGGER

For a few hundred to a few thousand dollars, you can make your place "live" bigger without actually making it bigger, says architect Sarah Susanka, a small-space specialist and author of "Not So Big Remodeling." Call it thinking inside the box; here are nine creative solutions for cramped homes.



1. Multitask the dining room ...

Cost: $500 to $2,000

If you have an eat-in kitchen, your dining room is probably used for special occasions only. Why have a prime spot sit vacant except for two or three holidays a year? Use it every day as an office or homework room without giving up dinner-party capabilities.

Install doors ($300 to $500 each, with labor); add shelves or a cabinet for supplies; and invest in fitted pads to protect the tabletop.

For more flexibility, try a table like homedecorator.com's $629 Mission Table Cabinet, a sideboard that—amazingly—telescopes into a full-size dining table.

2. ... and the guest room

Cost: $100 to $3,000

Stop dedicating a whole room to infrequent out-of-town visitors. With a decent air mattress, futon, or pull-out couch, you can lose the spare bed and use the room for day-to-day needs. (If you go with an air mattress, make sure to choose one with a built-in reversible motor to simplify the inflating and deflating.) Add furniture, and what was only a guest room can double as a media or game room or home office.

3. Add a powder room

Cost: $3,000 to $6,000

Adding a first-floor powder room is simple if you have an unfinished basement or crawlspace for running the new pipes. Look for an existing room—a coat closet, say—and you won't have to build walls. To save more, forgo the tile. The minimum space required by code is typically 2½ by 4½ feet, but you can often get an exemption to go even smaller.

4. Build a home office closet

Cost: $100 to $3,000

If your family is already bursting the seams of your abode, a home office might seem out of the question. But every household needs at least a small desk for paying bills and to anchor a wireless Internet system—and you can often fit it all in a closet or armoire.

At its simplest, all you need are five or six deep, sturdy shelves made from wood or a composite product, which can total less than $40 at a home center. In a closet, set the lowest shelf at 30 inches high so you can wheel up a chair.

5. Bring the laundry upstairs

Cost: $5,000 to $7,000

Hiking up and down the stairs with laundry is enough to make anyone wish she could trade up. Instead, just move the machines. Today's full-size high-efficiency washers and dryers are all designed to stack. You can steal the space--a little more than four square feet—from a closet, hallway, or nook. You'll need to run new pipes and wiring, so being near an existing bathroom helps keep costs down. Make sure to include a drain pan to collect overflows or spills.

6. Open the floor plan

Cost: $2,000 to $4,000

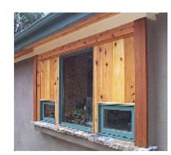
A choppy layout of undersize rooms can make any house feel claustrophobic. People like the look of older homes, but not the way they function. To open your floor plan without major expense, remove doors from rooms that don't need them. Interior walls can come out for $2,000 to $4,000, unless they support the building or contain pipes—in which case a window or pass-through may be a more feasible solution.

7. Use built-ins to replace a closet

Cost: $4,500 to $6,000

If you choose to eliminate a closet to expand or enhance your living space, create some built-ins to get back the lost storage. A run of four- to 10-inch-deep shelving along a wall has almost no effect on the size of a room. And it can handle many times the capacity of a closet. You might spend $4,000 removing the closet and another $2,000 on new built-in cabinetry, or just $500 if you use assemble-it-yourself home-center cabinetry, such as the Billy collection from Ikea.

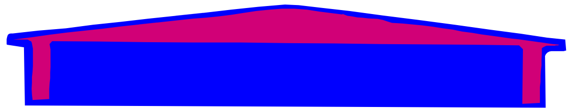
8. Build a bump-out



Cost: $6,000 to $12,000

Another trick to expand a home without a full-blown addition is called a bump-out. You hang extra space off the side of the house, sort of like an oversize bay window. Prohibition home was once a speakeasy Structurally, it can't extend more than about three feet from the existing exterior wall, but it can run nearly the whole length of the building—enough space to add an eating area to your kitchen or a closet to your master bedroom suite. Because there's no foundation work, a bump-out costs about $150 a square foot—or just $100 if you can tuck it under an existing roof overhang.

9. Finish non-living spaces



Cost: $15,000 to $30,000

Converting a full-height basement or garage into living space gets you an addition at half price. You'll need a floor, ceiling, walls and more, but no structural work, no foundation, and no roof, so it'll cost $50 to $100 a square foot—vs. about $200 for a true addition.

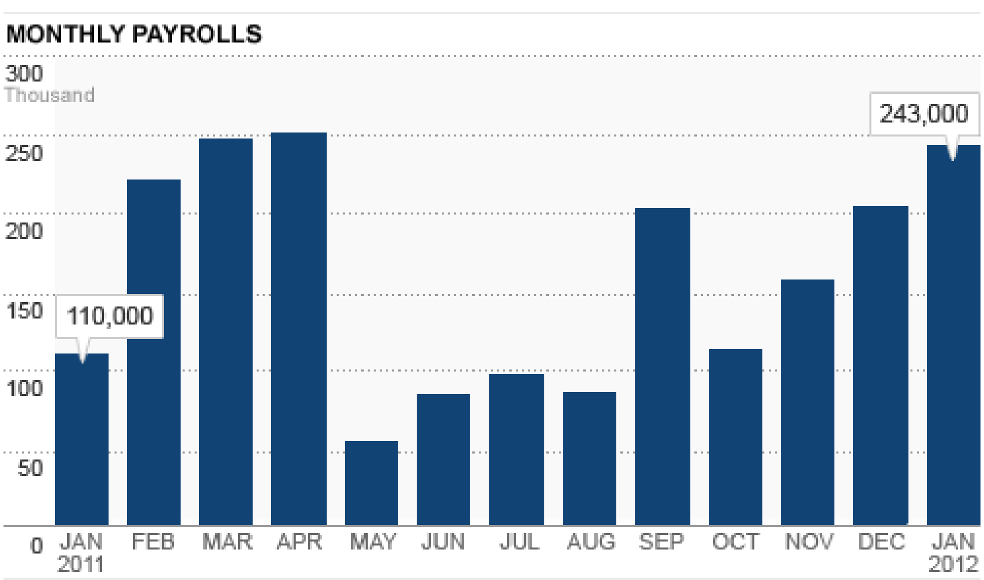
Attics are fair game, too, but more complicated because you may need to add a stairway and probably extend the plumbing, heating, and cooling systems a flight up. Doing all that brings the cost to around $150 a square foot.

JANUARY JOBS REPORT: HIRING UP, UNEMPLOYMENT DOWN

American employers substantially stepped up their hiring in January, bringing the unemployment rate down for the fifth month in a row. Employers added 243,000 jobs in January, the Labor Department reported, marking a pick-up in hiring from December, when the economy added 203,000 jobs. Meanwhile, the unemployment rate fell to 8.3%. That is the lowest since February 2009.

The encouraging news was coupled with revisions to the Labor Department's data, showing the economy added 180,000 more jobs than originally thought in 2011. Private businesses have been adding jobs consistently since March 2010. In January, they added 257,000 jobs. The manufacturing sector—a focal point of President Obama's latest jobs speeches—added 50,000 jobs in January. Manufacturing has accounted for 14% of the job gains in the last 13 months.

Professional and business services added 70,000 jobs, and education and health services added 36,000 jobs. But the government has also been bleeding jobs since the middle of 2010, and continued to do so last month. Most of the recent job losses have been at the state and local level. Overall, the public sector cut 14,000 jobs in January.

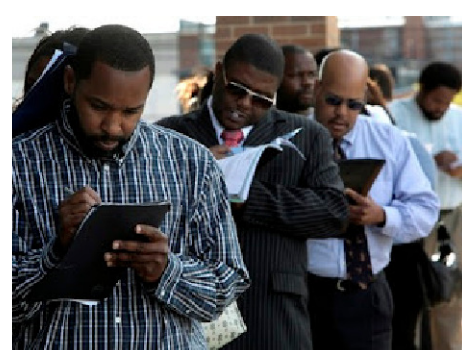


The U.S. economy added 243,000 jobs in January, marking the strongest job growth since April.

The unemployment rate is obviously a highly politicized number. While gradual improvement in the job market may strengthen President Obama's position, major weakness still remains.

The economy still needs to add about 5.6 million jobs to get back to 2008 employment levels, and it's unclear if stronger job growth lately can continue. Europe's debt crisis continues to rattle employers' nerves, the housing sector remains a drag, and uncertainty surrounding fiscal policies like the extension of the payroll tax hangs in the air. Amid those uncertainties, the Federal Reserve last week said it forecasts the unemployment rate to remain between 8.2% and 8.5% in 2012. Fed chairman Ben Bernanke continues to characterize the recovery as "frustratingly slow."

Meanwhile, certain demographic groups still are burdened with ultra-high unemployment rates. While the black unemployment rate fell substantially from 15.8% to 13.6% in January, it still remained far above the unemployment rate for whites, which is 7.4%. Latinos had a 10.5% unemployment rate. Of the 12.8 million Americans who remain unemployed, 42.9% have been so for six months or more.



RATE SUMMARY:

Given that mortgage rates probably bottomed out in the past month or two, there was nowhere for them to go, but up. Even so, in the past month, the incremental change has been slight among conforming programs—an 1/8th at most. The jumbo loans have seen the most movement, increasing a quarter-point to 0.375%. Certain government programs like FHAs & VAs have seen similar ¼ to 3/8th of a point worsening. But given the resurgence in the economy and the recent run-up in oil prices, the changes in the overall mortgage market have been modest.

Investors are beginning to focus on the price of oil. Concerns about Iran have pushed oil prices up to the highest level in nine months. Higher energy prices are bad for consumers and the economy. Because higher oil prices have two opposing effects on inflation the impact on mortgage rates is uncertain: while rising energy costs add to inflation, they also slow economic growth, which reduces inflationary pressures. It's unclear which influence will be more impactful over time.

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 MONTH'S BEST BUYS:

- **Conforming 30 yr. fixed @ 3.5%**
- **Conforming 15 yr. fixed @ 2.875%**
- **Conforming 5/1 ARM @ 2.375%**
- **High Balance Conforming 30 yr. fixed @ 3.625%**
- **Jumbo 5/1 ARM @ 2.75%**
- **Conforming FHA/VA 15 yr. fixed @ 2.75%**
- **Conforming HomePath 30 yr. fixed @ 3.625%**

MORTY'S MAILBAG

Q. What is the eligibility date to qualify for a Freddie Mac or Fannie Mae refi if a borrower is upside down in their mortgage?

A. The existing note must be dated prior to 6/1/09.

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

Two guys are sitting in a bar, with one looking very glum. Joe asks, "What's the matter?" The glum guy replies, "My wife walked out three days ago. Never came back. Said she was only going out for a carton of milk." Joe says, "That's not good. How are you coping?" The glum fellow cheers up and says, "Surprisingly OK. It's amazing how fast you get used to black coffee!"

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

NEXT ISSUE'S TOPIC:
INTEREST ONLY LOANS