MortgageStraightTalk.com

Newsletter - April 2012

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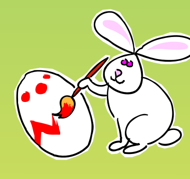

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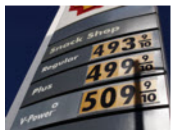
THE MONTH IN REVIEW



3/1-3/2 **The nationwide average for gasoline prices approached $3.74 a gallon Thursday, continuing a steady rise for the 23rd consecutive day**, according to the motorist group AAA. Initial **jobless claims for the week ended Feb. 25 fell 2,000 to 351,000 --** coming in below expectations.

3/5- 3/9 **The ISM manufacturing index for February slipped to 52.4, from 54.1 in January**, indicating a slowdown in the sector's expansion. Meanwhile, **factory orders in January decreased 1% -- less than the 1.9% decline analysts were expecting**. Factory orders rose 1.4% in December. **The Dow dropped 203 points, Tuesday, on economic uncertainty emanating from Europe and the political tension between Iran and Israel.** First-time claims for unemployment benefits ticked higher last week, slightly dimming prospects for Friday's employment report. **The Labor Department reported Thursday that 362,000 people filed for initial unemployment benefits in the week ended March 3, up from the previous week's revised 354,000 claims.**

3/12- 3/16 **Retail sales rose 1.1% in February**, slightly above the 1% rise anticipated by economists. The report lifted U.S. stocks by 218 points, Tuesday. **The price on the benchmark 10-year U.S. Treasury dropped, Wednesday, pushing the yield up to 2.27%** from 2.11% the day before. **Producer prices for February increased 0.4%,** which was slightly less than the expected increase of 0.5%. In January, the PPI ticked up by 0.1%. **The Empire Manufacturing survey for New York State rose to 20.2 in March,** much higher than the reading of 15 that analysts were expecting. The index was 19.5 in February.

3/19- 3/23 **Future home construction showed signs of strength in February,** with permits climbing 5.1% to an annual rate of 717,000, topping analyst predictions of 695,000. **U.S. stocks closed lower (76 points) Tuesday as concerns about slowing growth in China overshadowed an upbeat report on the U.S. housing market. EXISTING home sales for February came in at an annual rate of 4.59 million in February,** according to the National Association of Realtors. The sales pace was roughly in line with economists' expectations. **Unemployment benefit claims fell to a 4-year low** with 348,000 people filing initial jobless claims in the week ending March 17, down from the previous week's 353,000 claims.

3/26- 3/30 **NEW home sales for February declined 1.6%** as compared with January's 318,000 sales, but were 11.4% above last February's 281,000. **The National Association of Realtors said its index of pending home sales eased 0.5% in February to 96.5 from 97 in January. Home prices in 20 major cities fell to the lowest level since 2002, according to S&P/Case-Shiller. A government report on durable goods orders showed that orders increased 2.2% in February,** less than the 2.8% expected by economists. **First-time claims for unemployment benefits in the week ended March 24 fell to 359,000**—a four-year low—from 364,000 the previous week. But that was still higher than the 350,000 forecasted.

INTEREST ONLY LOANS - WHAT THEY ARE

Interest Only loans (I/Os) are not new. They are exactly what they say, loans in which **the borrower pays only the interest on the mortgage debt.** As with conventional Adjustable Rate Mortgages (ARMSs), they come in a variety of time frames during which the interest rate is fixed: 3/1s, 5/1s, 7/1s, 10/1s and there's even a 30 yr. Interest Only. I/Os are in distinct contrast to a traditional amortizing mortgage where a borrower's monthly payment includes **both the interest on the principal and some amount toward principal reduction**.

With a typical I/O loan, the borrower pays the interest on the loan each month for a set period of time. Typically, the interest-only period is for the first 10 years of a 30 year mortgage. After this time, the principal balance is amortized over the remainder of the term. In other words, if a borrower had a thirty-year mortgage loan and the first ten years were interest only, the principal balance would then be amortized over the remaining twenty years. This would result in a considerable increase in the monthly payment (infamously known referred to as payment shock).

The practical result is that the early years (during the interest-only phase) the payments are substantially lower than the later phase when the payments become amortizing. This gives the borrower more flexibility because he is not forced to make payments towards principal. For example, on a $500,000 purchase with an interest rate of 4% on a $400,000 loan amount (80% LTV), the monthly payment for an interest-only loan would be $1,333, compared to about $1,909 for an amortized 30-year loan.

ADVANTAGES OF I/O LOANS

The advantages of I/Os to a borrower may be several or unique. Among them, may be one or more of the following:

- To qualify for a larger loan or a more expensive home
- To minimize the monthly payments
- To maximize his down payment leverage (for "flipping" properties)
- To make investments with payment difference that yield a higher rate of return
- People who expect to make a lot more money in the near future
- People whose income takes the form of infrequent bonuses or commissions
- To make one's own custom amortization schedule
- To free up money that one has a better use for

First time homebuyers can now afford to enter the housing market with affordable, low interest-only mortgage payments. The high housing prices, especially on the East and West Coasts, and the relatively low interest rates make I/O loans particularly appealing to a good many homebuyers.

Homeowners looking to upgrade can leverage the interest-only mortgage loan into a higher priced house that otherwise would be unaffordable or for investors to generate cash flow when they might not otherwise be able to.

Interest-only can serve as a good alternative to the typical mortgage for the short-term buyer. For example, buying a house in a growing neighborhood where values are likely to increase can lead to a healthy profit on resale, while keeping monthly payments within budget.

Homebuyers with short-tem expectations (like corporate or military types for whom relocation goes with the territory) may find I/Os an attractive alternative.

The prospective home buyer or investor may ask himself: Why sink my discretionary income into the principal of a standard mortgage loan when I can instead earn a significantly higher return on my capital than the appreciation I might earn on housing equity?

A corollary to the reason above might be one where a buyer/borrower is looking to re-sell the house in an extremely short period (flipping)

Still another reason might simply be to maximize one's leverage: putting as little money out as possible to control an asset.

On the other hand, buyers who choose interest only loans for the long term are typically people who expect their future incomes to rise dramatically and want to buy a big house sooner rather than later. A physician might be a good example of a professional that could reasonably foresee a substantial increase in one's income in the not too distant future.

They can also appeal to borrowers with a cyclical income (frequently based on periodic commissions or sizeable annual bonuses), who are able to pay off the principal in big chunks. In this case, a borrower might save on his monthly payment (by paying interest only) and make larger payments against the principal when he has extra money.

A variant of this are those borrower who wish to, in effect, customize their amortization schedule with an interest only loan. In many cases, their additional payment against principal will result in a lower required payment in the ensuing months (because the principal amount that they're paying interest on has decreased).

By only paying the interest on this mortgage loan, the homeowner or investor can invest, what would be their principal payment, in stocks, savings, or a small business. The bet is the investment will outperform a standard mortgage loan for the first 5 to 10 years. And after the 10 years is up, the interest-only mortgage loan holder will have the money to refinance or pay off the mortgage in a lump sum.

DISADVANTAGES OF I/O LOANS

I/Os also have certain pitfalls that borrowers need to be aware of:

- You aren't building wealth for yourself
- If your home loses value you may have to write a check to sell it
- You won't increase equity that you could borrow against later with a second mortgage
- Many people will not invest or save the extra money and spend it instead
- many people are not disciplined enough to pay the extra money on principal payments when they don't have to
- Anticipating income growth may fall short
- Anticipating home appreciation may fall short
- You'll have to do something to pay the mortgage sooner or later
- If it's an ARM, rising mortgage rates heightens risk

In the mind of many financial advisors, the *disadvantages of interest-only mortgage loans trump its advantages*. So, it is crucial that the borrower understand the ramifications of their loan or they can be put themselves in undue jeopardy.

Interest only loans also have some drawbacks. The main problem is that you don't build any equity in your home. This can be a problem because you're only paying interest, you're not reducing the balance on your loan. Instead, you're just servicing a debt–or "treading water"–if you only make the required interest payments.

Interest-only loans represent a somewhat higher risk for lenders, and therefore are subject to a slightly higher interest rate. Combined with little or no down payment, adjustable rate interest only mortgages are sometimes indicative of a buyer taking on too much risk—especially when that buyer is unlikely to qualify under more conservative loan structures. Because a homeowner does not build any equity in an interest-only loan, he may be adversely affected by prevailing market conditions at the time he is either ready to sell the house or refinance. He may find himself unable to afford the higher regularly amortized payments at the end of the interest only period, unable to refinance due to lack of equity, and unable to sell if demand for housing has weakened.In the original example the $500,000 home was purchased with $100,000 down and an interest only loan of $400,000. If the borrowers made interest only payments, they would still owe $400,000 on that home. If the home lost value during a market downturn like the one we saw in 2008-2011 and was subsequently worth only $400,000 when they sold it, they would have lost the $100,000 of equity that their down payment represented. If the house were worth less than $400,000 they would have to do a short sale or pay out of pocket to unload the house.

At the end of the interest-only period, one option is to refinance. This depends on the housing market staying strong, and interest rates staying low. Since a lender will only loan a certain percentage of the value of a house, if housing prices fall, so does the amount of the loan the lender is willing to give. Let's say for the sake of argument in our previous example, the borrower had taken out 7/1 I/O ARM and that the loan was in the tenth year of its 30 year term. On top of this, interest rates had ratcheted upwards

and now the interest rate had increased from 4% to 6.5% (remember beginning in year 8 it could adjust upward or downward). Thus, the borrower's payment would have increased from $1333/month when the borrower was making an interest only payment at 4% to one at 6.5% with a payment of $2166/month. Of course, you have to pay the money back at some point. Usually, you end up selling the home or refinancing the mortgage to pay off your interest only loan. If you end up keeping the loan, after 10 years, the bank would require that the balance be amortized such that

principal until the interest-only period expires. But, at this point, the homebuyer should expect a sharp rise in the monthly payment, as it will then include the principal, plus interest at a variable rate. Due to the speculative aspects of relying on home appreciation which may or may not happen, many financial experts advise against interest-only loans for which a borrower would not otherwise qualify. The types of interest-only loans that rely on home appreciation would be negative amortization loans, which most financial institutions discontinued in mid-2008.

To revisit our example one more time, let's say that during the 10 years of interest only payments, the borrower had made no additional payments to decrease the principal balance. Because the interest only period had elapsed, the borrower is now left with only 20 years to pay off principal instead of the original 30 years. Thus, the new payment on a $400,000 loan amortized over 20 years would be $2,982/month. This is what is known as payment shock because the borrower's payment had gone up by about 224% above its original $1333.

As we've seen, an interest-only mortgage program has its **pros and cons.** It is not inherently bad, but many times misguided homebuyers have relied on unprecedented, unbridled home appreciation or increased wage earnings, commissions, or investment equity to satisfy the balloon principal after the interest-only mortgage reaches maturity and put themselves in undue jeopardy. Consequently, these types of loans are not advisable for most regular homeowners and wage earners who are not well-versed in investment strategies and responsible saving.

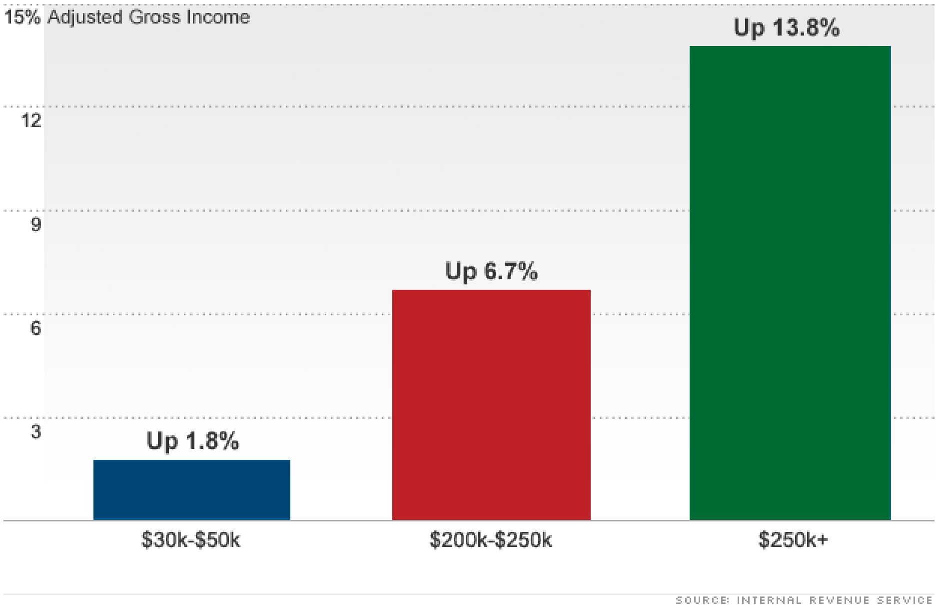
In summary, most prospective homeowners should stick with standard fixed mortgages or ARMs. Generally, leave the interest-only loan option to the investment professional that has large assets and needs to leverage his assets to take advantage of other, higher money making instruments like equity investments.

THE RICH GET RICHER

Income for wealthy taxpayers jumped 14% in 2010; the middle class saw gains of just 1.5%.

After two years of declines, Americans' income finally rose in 2010. The Internal Revenue Service provided a first peek at taxpayers' returns and it showed that adjusted gross income totaled $8 trillion, up 5.2% from 2009. But a closer look at the data reveals that only the wealthiest Americans will be popping the Cristal. Taxpayers earning more than $250,000 saw their total adjusted gross incomes rise by 13.8%, while those bringing home between $200K and $250K enjoyed a 6.7% increase.

Middle-class Americans? Not so fortunate. Those making between $50K and $100K saw their incomes creep up only 1.5%. Part of the imbalance comes from differences in the growth of wages, the largest component of adjusted gross



gross income. Overall, salaries and wages grew 2.1%. But the super-rich saw an 11.2% hike, and those just below them enjoyed a 4.6% increase. But the middle class saw a drop of 0.7% in wages.

And while capital gains rose healthily for most income brackets, the wealthiest taxpayers benefited from a 37.6% hike, and those in the bracket below pocketed 32% more. Middle-income folks saw only a 19.8% increase.

Looking at it another way, the Top 1% of taxpayers captured 93% of the income gains in the first year of the economy recovery, according to Emmanuel Saez, an economics professor at University of California, Berkeley. The Top 1% had incomes above $352,000 in 2010.

And their dominance is expected to continue since corporate profits and dividends—sources of income for the rich—grew strongly last year, while wages increased only modestly. "It is likely that this uneven recovery has continued into 2011 as the stock market has continued to recover," Saez said.

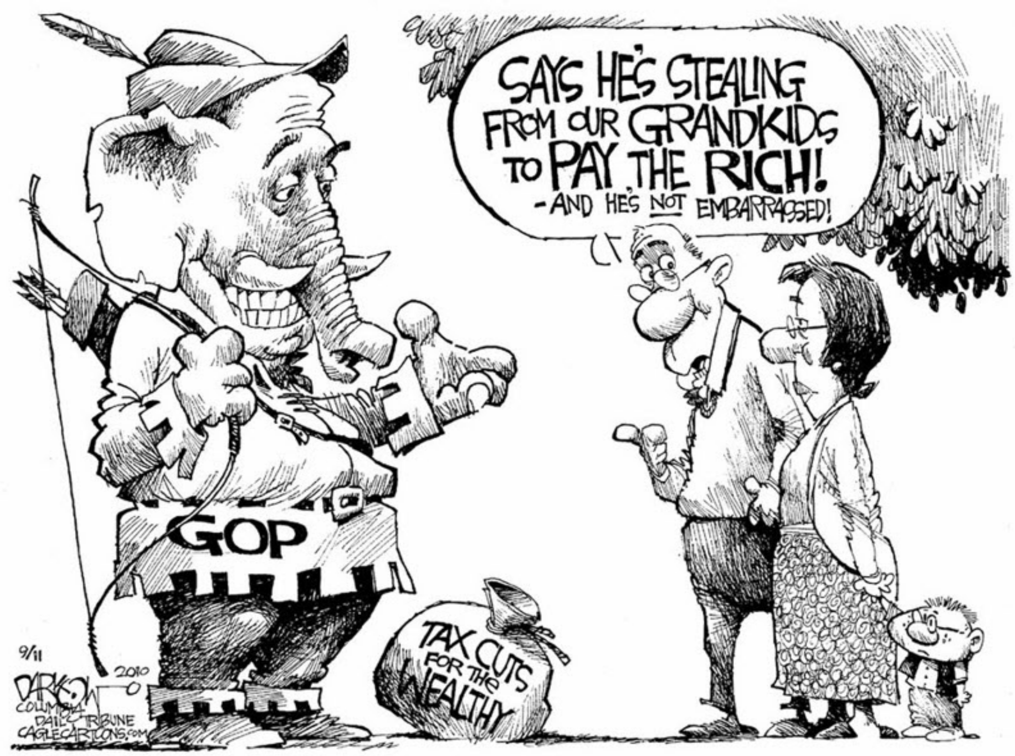
FIVE TAX BREAKS WASHINGTON HAS GIVEN THE RICH

The nation's tax policy has helped the rich keep more of their income. But the middle class isn't in a position to take advantage of the same benefits.

HELPING THE RICH

The 2012 election is already shaping up to be a war of the classes....and much of the battle centers around taxes. President Obama is asking that the rich to chip in more to boost the nation's coffers. The Republican candidates are pushing for lower tax rates, which they say will boost the economy. They also want to reduce or eliminate capital gains taxes, a move that generally benefits the wealthy. Taxes have played a major role in the widening divide between the rich and poor in recent years, according to the non-partisan Congressional Research Service. Here are some of the big tax gifts Washington has given the richest Americans.

BUSH TAX CUTS



It's true that President Bush lowered tax rates for everyone in 2001, but the rich benefited more than other Americans. The Bush tax cuts were a primary driver of the growth in income inequality over the past decade, the Congressional Research Service found. The tax cuts reduced the middle three income tax rates of 28%, 31% and 36% by 3 percentage points, while shaving 4.6 percentage points off the top rate of 39.6%. It also created a new 10% bracket. This knocked roughly $11,000 off the tax bill of those in the top quintile of taxpayers, on average, according to the non-partisan Tax Policy Center. They got to keep an extra 5.4% of their after-tax income. But the middle quintile only received a 2.6% boost in their after-tax income, or about an $1,100 tax break. The bottom quintile had just a $74 reduction in taxes, about a 0.7% change in after-tax income.

LOWER RATES ON CAPITAL GAINS AND DIVIDENDS

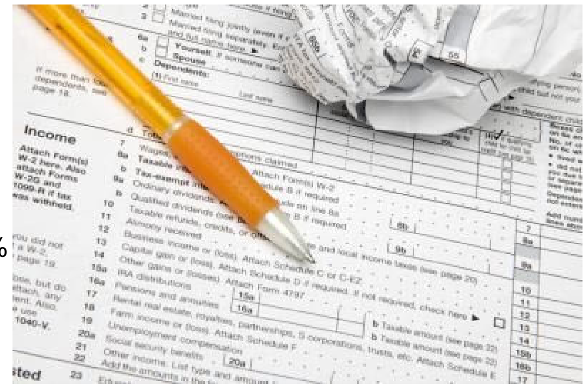
President Bush also lowered the rates on capital gains and dividends to 15%. Previously, capital gains had

been taxed at 20% and dividends at ordinary income tax rates. This has been a big boon for the wealthy since nearly half of them paid tax on capital gains or dividends in 2010, according to the Tax Policy Center. Only 6.3% of the middle quintile had taxable investment income and a paltry 0.2% of the lowest quintile. Since rich people have the majority of the investment income, they get the majority of the tax break. The top quintile of taxpayers accounted for nearly 75% of the dividend income and 94% of the capital gains income reported in 2005, according to the Tax Policy Center.

BIG BENEFITS FOR THOSE WHO DIE

When President Bush took office, the wealthy could leave only $675,000 to heirs free of federal tax, while the rest was taxed at 55%. His tax cuts gradually increased the amount exempt from estate taxes, while lowering the rate until 2011. After a bitter battle, President Obama and the Republican-led House struck a deal in the waning days of 2010 to exempt $5 million from estate taxes and set the rate at 35% for two years. The result? An estate worth $25 million would have been subject to about $13.2 million in federal taxes had Bush not changed the law. Now, it will fork over less than $7 million.

ITEMIZED DEDUCTION ADVANTAGE



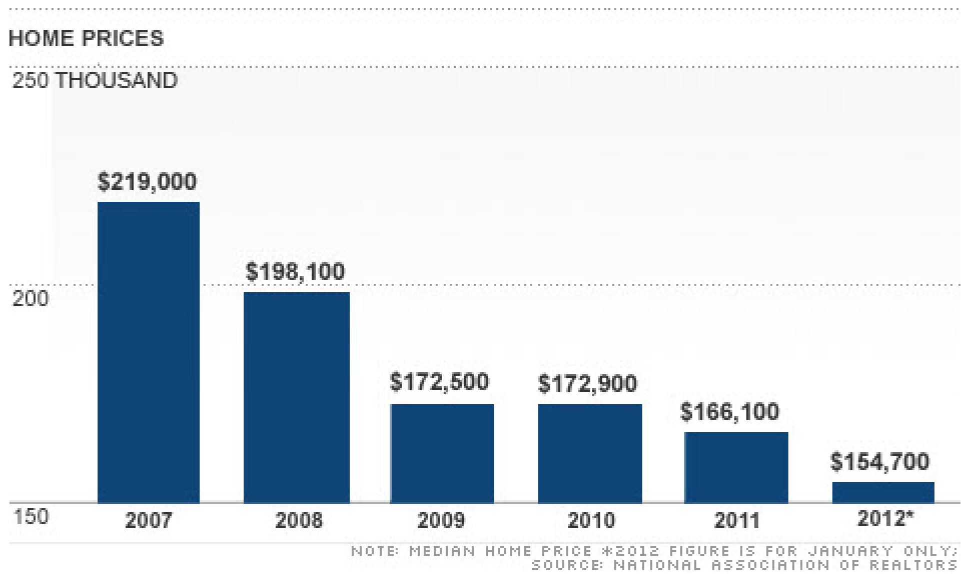
Itemized deductions have long helped reduce the tax bills of the rich more than those of other Americans. The wealthy are often subject to higher tax rates, so deducting these items from their income gives them a bigger benefit. Washington sweetened this break in recent years. Through 2012, the rich can take the full value of these itemized deductions regardless of their income. Some 96% of those making between $200,000 and $1 million itemized their deductions on their 2009 return, rather than taking the standard deduction of $5,700 for single taxpayers or $11,400 for married couples. Meanwhile, only 37% of those making between $40,000 and $50,000 itemized their deductions. Of those making $200,000 to $1 million, some 90% claimed a charitable tax deduction on their 2009 return, according to the IRS. Their contributions were just over $9,000 on average. Some 79% of these folks took a deduction for home mortgage interest, with the average deduction coming in at $21,350.

But only 28% of those making between $40,000 and $50,000 took a charitable deduction for donations, with the average contribution less than $2,400. Some 28% deducted their home mortgage interest, with the average deduction working out to just under $8,800.

TAX-FREE INTEREST ON MUNICIPAL BONDS

Another longstanding gift to the rich is the exclusion of interest payments on municipal bonds. Municipal bonds are issued by states, local governments, school districts or public authorities to finance construction and other capital projects, such as bridges, buildings, sewers and stadiums. The income stream from these bonds is not subject to federal tax. And, if a taxpayer buys a bond issued by their home state or city, it could be free of state and local income taxes too. Hard numbers on how much income is excluded from such tax are hard to come by, but the Tax Policy Center estimates the impact is sizable.

HOME PRICES AT LOWEST POINT IN MORE THAN 10 YEARS



Serving as a drag on existing home prices is a large inventory of homes in foreclosure. Home prices fell to their lowest point in more than a decade in January, which helped to lift the pace of home sales, according to a report from an industry trade group. The National Association of Realtors reported that the median home price in January fell 2% from December to $154,700. That's the lowest price reading since November 2001, before the run-up in home prices that became known as the housing bubble. The median price is the point at which half of homes are sold for a higher price, and half are sold at a lower price.

Distressed home sales, which includes homes in foreclosure and so-called short sales in which the home is sold for less than what is owed on the mortgage, made up 35% of sales in January.

Prices will likely continuing to fall through the first half of 2012 due to the high share of distressed sales. The recent agreement between the big mortgage servicers, state attorneys general and the Obama administration will also result in more homes going to foreclosure over the next few months, adding to downward pressure on prices.

But the pace of sales rose to the highest level since May of 2010, helped by the low prices and rock-bottom mortgage rates. The seasonally-adjusted annual sales pace of 4.57 million homes was up slightly from the revised 4.38 million in December. The last time homes sold at that pace, buyers were rushing to qualify for an $8,000 homebuyer's tax credit that was about to expire.

The uptrend in home sales is in line with all of the underlying fundamentals—pent-up household formation, record-low mortgage interest rates, bargain home prices, sustained job creation and rising rents. The housing market has been showing signs of recovery in recent months. The combination of low mortgage rates and a decline in home prices means homes are more affordable than they've been in decades.

New home starts by builders have been rising, along with their confidence and customer traffic, according to an industry survey. The supply of existing homes on the market tightened slightly in the Realtors' latest report, slipping 0.4% to 2.3 million homes, roughly a 6 month supply. That is down 20% from the supply of homes a year ago.

FHA TO INCREASE UP FRONT MIP AND MONTHLY MIP

As part of ongoing efforts to encourage the return of private capital in the residential mortgage market and strengthen the Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund, Acting FHA Commissioner Carol Galante announced a new premium structure for FHA-insured single family mortgage loans. **FHA will increase its annual mortgage insurance premium (MIP) by 0.10 percent for loans under $625,500 and by 0.35 percent for loans above that amount. Upfront premiums (UFMIP) will also increase by 0.75 percent.** These premium changes will impact new loans insured by FHA beginning April 1st.

SPECIAL(S) OF THE MONTH

- **Conforming 30 yr. fixed @ 3.625%**
- **Conforming 15 yr. fixed @ 2.875%**
- **Conforming 5/1 ARM @ 2.250% & Conforming 5/1 Interest Only @ 2.375%**
- **High Balance Conforming 15 yr fixed @ 3.000%**
- **Jumbo 5/1 ARM @ 2.750%**
- **FHA Conforming 15 yr. fixed @ 2.750%**
- **Portfolio conforming 5/1 ARM @ 4.00%**

MORTY'S MAILBAG

There were no letters in the mailbag this month.

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

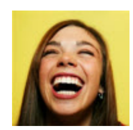
RATE SUMMARY

The past month was a volatile one: The Fed issued a statement saying the economy was improving. But, it acknowledged inflation might increase. The bond market was distressed. Then, there were renewed concerns about Europe. The various influences roughly offset each other with rates fluctuating an 1/8th either way, depending on a specific program.

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.

MORTGAGE MIRTH



Why Is 'abbreviation' such a Long word?

NEXT ISSUES TOPIC: PORTFOLIO LOANS