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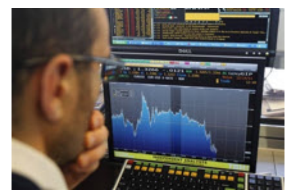
THE MONTH IN REVIEW

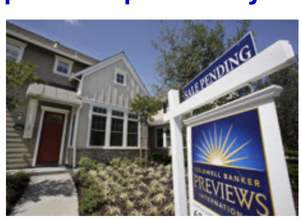
7/2-7/6 **U.S. stocks soared 278 points, Friday**, after Euro leaders reached a deal to help struggling banks. **The Commerce Dept. said that construction spending rose 0.9% in May**, up 7% from May 2011. **The Institute for Supply Management said its Manufacturers Index fell to 49.7,** down from 53.5 in May. It was the first time the index fell below 50, which signals expansion in the sector, since July 2009. Markets were closed for the Fourth of July holiday. The Labor Department's jobs report, which showed that **the economy added**

just 80,000 jobs in June, came in below expectations and points to signs of a deceleration in employment growth. Wall St. responded with a 124-point sell-off in the Dow.



7/9-7/13 **The euro fell to another two-year low against the dollar Monday**, as investors continue to seek safety in the greenback while they wait for the latest news from the eurozone. **U.S. stocks closed lower Tuesday,** as worries about corporate earnings falling short of expectations unnerved investors. **The Bureau of Labor Statistics reported that jobless claims fell to a 4 year low.** Only 350,000 claims were filed for the week ending July 7. **U.S. stocks rallied Friday, pushing the Dow up 203-points to break a six-day losing streak. Wells Fargo has announced its decision to exit wholesale mortgage lending.**

7/16-7/20 **The yield on the 10-year note slid to a record low of 1.44%** Monday morning, as ongoing signs of weak global growth kept the flight to safety alive and well. **Retail sales declined for the third month in a row**, amid fears of a global economic slowdown and concern over Europe. A recovery in home construction seems to be underway, **with both housing starts and permits up in June year-over-year,** according to a report released



Wednesday by the Census Bureau. **Home prices rose in April for the first time in seven months,** according to the S&P/Case-Shiller home price index.

Sales of EXISTING homes declined 5.4% in June on a monthly basis, but rose 4.5% year-over-year. Initial jobless claims last week came in higher than expected, at 386,000. That was an increase of 34,000 from the previous week's revised figure.

7/23-7/27 **Stocks dove Monday as worries that Spain may need a full-blown bailout sparked a global sell-off and the yield on the 10-year Treasury bond touched a low of 1.395%. The S&P/Case-Shiller home price index reported that home prices in 20 major markets rose 1.3% in April, the first monthly increase in seven months. U.S. stocks sold off for a third session, falling 103-points** as a weak reading on U.S. manufacturing, a dull batch of earnings reports and ongoing worries about Europe dampened the mood on Wall Street. **Sales of NEW homes fell 8.4% in June** as compared to May when sales hit a two-year high, according to the Census Bureau report. **U.S. stocks shot up 212-points, Thursday** after the European Central Bank president said that the bank would do whatever it takes to preserve the euro. The Dow closed above 13,000, Friday, on continued hopes that central banks in Europe and the United States will take steps to support the economy.

7/30-8/3 In a sign that the U.S. housing market is recovering**, home prices rose for the second straight month in May.** Prices climbed 2.2% compared with a month earlier, according to the S&P/Case-Shiller 20-city home price index.

BUYING A HOME - WITH A REVERSE MORTGAGE

As a preamble to this month's topic, I am going to briefly review here just what a reverse mortgage is.

Due to advances in medical science many seniors now live well past the proverbial three-score and ten that have historically been the upper limits of the average person's life span. Because of the high price of prescription drugs, lack of financial planning, and inflation, many retirees find that they are in danger of outliving their income stream or at the very least one that allows for a quality of life to which they've become accustomed. At least for home owners, the financial community has found a way to address this situation in the form of "reverse mortgages". These products offer a way to borrow against one's home equity to create a regular and tax-free source of income or a significant source of ready cash, all while one continues living in one's home.

BASIC IDEA OF A REVERSE MORTGAGE

Reverse mortgages are called so because instead of making mortgage payments, the borrower actually receives money

from the lender. The source of funds for the money received is the equity you have stored in your home. Unlike the loan balance of a conventional mortgage, which becomes smaller with each monthly payment, the loan balance of a reverse mortgage grows larger over time. The loan principal increases with each payment that you receive, and interest and other charges accrue each month on the total funds advanced to you to date.

There is no prepayment penalty, and the available funds can be used for any purpose.

FORMERLY TWO OPTIONS — NOW JUST ONE

The two most widely known Reverse Mortgage products used to be the Housing and Urban Development **Home Equity Conversion Mortgage** (or HECM)and Fannie Mae's **Home Keeper Mortgage** (HKM). Now, 100% of all Reverse Mortgages are the **HECM** category as Fannie Mae's Home Keeper program was phased about 3 years ago. The HECM offers 3 withdrawal options (or payment plans):

- Fixed monthly payments for life (as long as you live in the home
- Or a line of credit
- Or a "modified term" a combination of monthly payments and a credit line

In addition, you may use this program to purchase a new home—all in a single transaction. The out of pocket expenses are reduced, your potential mortgage payments are eliminated and you get to keep more of the sales proceeds from the old house.

ELIGIBLE PROPERTIES

- Owner occupied properties only
- SFRs (single family residences)
- PUDs (planned unit developments)
- Condos (FHA approved)

AGE QUALIFICATIONS

With the HECM the youngest owner must be 62 or older.

ELIGIBILITY REQUIREMENTS

All HECM borrowers must have received reverse mortgage counseling from a HUD-approved housing counseling agency.

DETERMINANTS OF LOAN AMOUNTS

The amount of cash available to a borrower with the various "reverses" is determined by the interplay of a number of factors: the value of the property, the amount of the present mortgage (if any), and the age and number of borrower(s). With an HECM, the "maximum claim amount" is also determined by the lesser of the appraised value or the FHA geographic maximum (currently $625,500. Debt ratios and credit scores do not have any bearing.

INTEREST RATES

Just as with conventional loans, borrowers have two options—either an adjustable rate or a fixed rate product. The current rate for the HECM ARM product is 2.739% with 1.25% of Mortgage Insurance which brings the Total Loan Rate to 3.989%. The adjustable rate product has a life cap that cannot increase by more than 10 percent above the initial note rate.

The HECM Fixed rate product is 5.060% with 1.25% of Mortgage Insurance which brings the Total Loan rate to 6.310%. Incidentally, there is no difference from lender to lender for either the ARM or fixed rate product with respect to interest rates; it's all the same. The same is true for loan amounts.

COSTS

The costs of the HECM loans run in the range of $3,000-13,000. With the HECM the basic charges include 4 types of fees: an origination fee, initial and monthly mortgage insurance premiums, closing costs and a monthly servicing fee.

WHEN DOES ONE REPAY THE LOAN?

The HECM must be repaid when you sell OR convey title to the property to another OR if you OR the last surviving borrower do not occupy the property as your principal residence for 12 consecutive months OR upon your death OR the death of the last surviving borrower.

HOW DOES ONE REPAY THE LOAN?

The HECM & the HKM must be repaid in one payment—either from the proceeds of the sale of your home or from other assets you may possess or your heirs might use their own funds or funds from your estate to retire the debt rather than selling the home. Partial prepayments are permissible under either programs without penalty.

BORROWER PROTECTIONS

The HECM is a non-recourse loans which means that you or your heirs will never owe the lender more than the loan balance or the market value of the property, whichever is less.

WHY USE A REVERSE MORTGAGE AS A PURCHASING TOOL?

The benefits are manifold. After making your initial down payment you never have a mortgage payment from that day forward. Another reason to use a reverse mortgage is that a senior can now leverage their crucial cash retirement assets to buy “up” vs. paying cash as now they can finance a larger portion of the transaction than one might qualify for with traditional financing because of debt to income ratios (DTI). <u>NOTE</u>: Homeowners that use a reverse mortgage to purchase a home are still responsible, however, for maintenance of the property (to preserve the collateral) as well as property taxes and homeowners insurance. Other reasons to use a reverse mortgage for a purchase are that there is no income, asset or credit qualification.

HOW DOES THE PURCHASE WORK?

The amount of the down payment is actuarial—it depends on the borrower’s age. The older one is the lower the down payment. For example, if one is age 62, the borrower’s down payment is 38.1% of the purchase price; if one is 90, the down payment is 22.4%. Conversely, the older one is, the higher the LTV. So, in the two examples above, the 62-year old with a down payment of 38.1% would qualify for a loan to value (LTV) of 61.9%, whereas the 90-year old would be eligible for an LTV of 77.6% with a down payment of 22.4%. If one wants to buy a home using a reverse mortgage, this is what it in essence amounts to.

IS ANYTHING INVOLVING A REAL ESTATE PURCHASE THESE DAYS REALLY THAT SIMPLE? NOT QUITE, THERE ARE A FEW STIPULATIONS.

WHAT FOLLOWS ARE A FEW BULLET POINTS REGARDING ELIGIBILITY AND THE LOAN PARAMETERS OF USING A REVERSE MORTGAGE TO BUY A HOME:

PROPERTY

Eligible properties include:

- Single Family Residences (SFRs), Planned Unit Developments (PUDs) and FHA approved condos.

Ineligible properties:

- No units, manufactured homes, log homes, dome homes, farms, etc are eligible.
- No second home or investment properties are allowed.

New construction is not eligible until the Certificate of Occupancy has been issued.

Any repairs must be satisfied by the seller prior to closing. Home inspection is required.

CREDIT

- No Notices of Default (NODs), short sales, or deeds in lieu thereof (mortgage rating in the past 120 days)
- Non-borrowing spouse must have credit pulled to confirm previous mortgage rating

- All federal debt must be satisfied

FUNDS

- No loans to get a loan are permissible, including business, bridge, mortgage, retirement account, credit card, etc.
- Proceeds from the sale of a business, real-estate, etc. are allowed. Paper trail must be documented

- All funds must be seasoned for 90 days, large deposits sourced.
- Mattress money, cashiers checks, etc. will not be allowed
- Typically, all of the closing costs are rolled into the loan

REAL ESTATE OWNED

- Borrowers may keep existing real estate
- But no credit for rental income will be given
- All existing real estate housing expenses will be figured with regard to Debt to Income ratios (DTI) and the preferred ratio is under 45% (exceptions can be made in certain instances)

- Borrowers are required to sign a Verification of Occupancy and a Letter of Intent
- Must occupy the residence within 60 days or default under the terms of the mortgage and foreclosure proceedings can begin.

THE PROCESS

There are a number of steps involved in making a purchase using a reverse mortgage and the origination procedure for a Reverse Purchase must follow a very specific chronological order. This order is crucial!

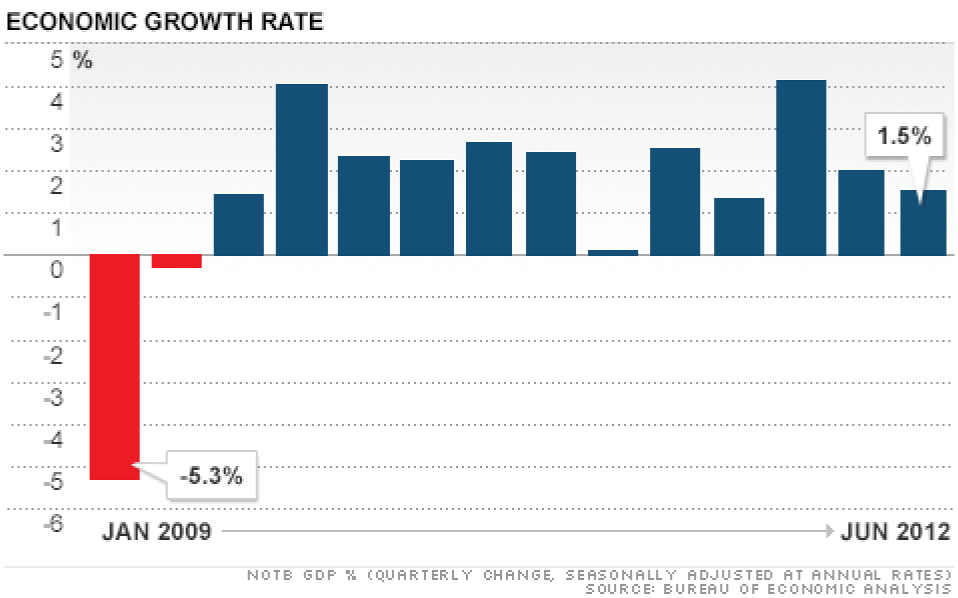
1. Purchase contract
2. Counseling
3. Application/Disclosures
4. Case Assignment
5. Appraisal Order / Completed
6. Submitted
7. Conditions
8. Clear to Close
9. Fund

LENGTH OF TIME

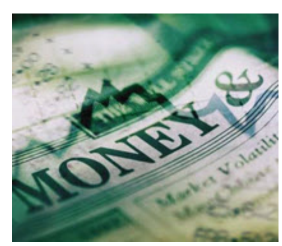
The process for reverse mortgage is longer than for a normal loan; it can take 45 to 60 days to close.

GDP REPORT: U.S. ECONOMY SLOWED IN SECOND QUARTER

The United States economy slowed in the second quarter amid weak consumer spending, government cuts and a rise in imports from foreign countries. Gross domestic product, the broadest measure of the nation's economic health, grew at an annual rate of 1.5% from April to June, the Commerce Department said Friday. That's down significantly from a 2% rate in the first three months of the year.



The Commerce Department also released revisions going back to the start of 2009. While the revisions showed that growth in 2010 was weaker than previously thought, 2009 and 2011 were slightly stronger. The second-quarter slowdown was not entirely surprising given consumer spending has been weak recently, the government has been cutting its spending and hiring has been tepid.



The economy needs to grow around 3% a year to bring the unemployment rate down significantly, and since consumer spending accounts for roughly two-thirds of the economy, it too needs to grow around 3%. But spending slowed to 1.5%, down from 2.4% in the first quarter, showing that households are continuing to deleverage three years after the recession. Shoppers cut back on buying big-ticket items like automobiles, as well as smaller items like clothing and groceries. As usual, the U.S. also imported more goods and services from foreign countries than it exported, which subtracts from economic growth. Government cuts, especially at the state and local level, also weighed on growth. Spending by businesses remained a small strength.

Economists are hopeful the economy will grow slightly faster in the second half of the year. The housing market has recently shown signs of recovering, which could translate into more construction jobs and consumer spending. But the effect is likely to be slow and hardly any forecasters are predicting GDP growth above 2% any time soon.

RATE SUMMARY

* **Conformings—1/8th to 3/8ths better.**

* **Jumbos—an 1/8th improvement.**

* **Governments—FHAs & VAs no change, other gov't programs are an 1/8th to ¼ better.**

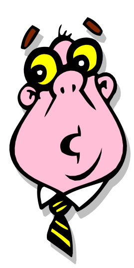
FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:
www.mortgagestraighttalk.com Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

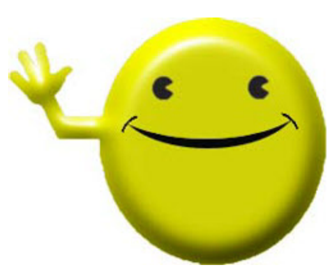
SPECIAL(S) OF THE MONTH

- **Conforming 5/1 ARM @ 2.125%**
- **High Balance Conf. 30 yr. fixed @ 3.375%**
- **High Balance Conf. 15 yr. fixed @ 2.750%**
- **Jumbo 30 yr. fixed @ 3.875%**
- **HomePath 30 yr. fixed @ 3.250%**

MORTGAGE MIRTH

Healthy is merely the slowest possible rate at which one can die.





MORTY'S MAILBAG

Once again, the mailbag was empty, 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

NEXT ISSUES TOPIC:

INTEREST RATE DETERMINANTS (2.0)