


Newsletter Vol. 10 Issue 2

February 2013

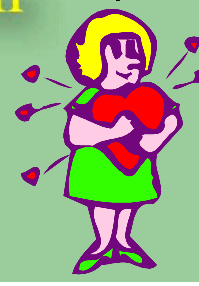
mortgagestraightTalk.com

Tel 760 726 4600

Cel 760 717 8584

Fax 760 639 0785

Rod@mortgagestraightTalk.com

IN THIS MONTH'S ISSUE

- **MORTGAGE MARKET MOVES AND ANALYSIS**
- **ODDS AND ENDS**
- **3 More Fiscal Cliffs Loom**
- **Real Estate Strategies for 2013**
- **New Home Sales Strongest in More Than 2 Years**
- **Mortgage Lending, Now More Onerous and Time Intensive**
- **December's Job Report: Hiring and Unemployment Steady**
- **The Wealthy Are 288 Times Richer Than You Are**
- **RATE SUMMARY**
- **SPECIAL(S) OF THE MONTH**
- **MORTY'S MAILBAG**
- **MORTGAGE MIRTH**




MORTGAGE MARKET MOVES AND ANALYSIS

Mortgage Rates Move Higher (week ending 1/4)

The year began on a rough note for mortgage rates. A one-two combination of a fiscal cliff deal and unfavorable news from the Fed caused mortgage rates to end the week sharply higher. The economic data released this week generally came in close to expectations.

Wednesday, mortgage rates reacted to the news that politicians reached a fiscal cliff deal which will avoid most of the spending cuts and tax increases which were set to take place at the start of 2013. While much of the debate was simply postponed, the deal reduces the risk of slower economic growth which would have resulted from the expiring programs. This was good news for stocks and bad news for bonds.

The second big surprise this week came from Thursday's release of the Federal Open Market Committee (FOMC) Minutes from the December 12 Fed meeting. Investors have believed that Fed officials intend to continue purchasing mortgage-backed securities (MBS) and Treasuries for quite a while. However, the 'Minutes' revealed that there was far less support for Fed asset purchases than previously thought. With the Fed currently buying the majority of all newly

issued MBS, the hint that Fed purchases could end sooner than expected caused MBS prices to decline. Since mortgage rates are largely determined by MBS prices, mortgage rates increased.

Economic Data Exceeds Expectations (week ending 1/18)

Positive economic data was the primary influence on mortgage rates this week. Unexpected strength in Retail Sales, Housing Starts, and Jobless Claims combined to push mortgage rates a little higher.

Stronger economic growth is great for the labor market and the stock market. Unfortunately, it also increases the risk that future inflation will move higher, so it is generally not good for mortgage rates. Two factors, however, helped contain the increase in mortgage rates this week. First, the inflation data released this week showed that inflation is not a problem right now. In addition, Fed purchases of mortgage-backed securities (MBS) provided sufficient demand to keep mortgage rates at low levels.

The Housing data released during the week continued to be encouraging. December Housing Starts jumped 12%, well above the consensus forecast, to the highest level since June 2008. Building Permits increased 1%. The January NAHB Home Builder Confidence index remained at the highest level since 2006. The Fed's Beige Book reported improving real estate conditions in all twelve regions.

Global Economic Growth (week ending 1/25)

An improving outlook for global economic growth caused investors to shift assets from bonds to stocks, reducing demand for long-term fixed-rate assets including mortgage backed securities (MBS). As a result, mortgage rates ended the week a little higher.

The global economic data released this week was encouraging. Important manufacturing reports in Europe and China exceeded expectations. In the US, Jobless Claims surprised investors for the second straight week. There is also a growing sense that the worst of the debt troubles for the European Union have passed. Stock markets around the world are hitting multi-year highs.

The Housing data released this week reflected solid year over year improvement. December Existing Home Sales were 13% higher than one year ago, to the highest level since 2007. Even though the total inventory of existing homes available for sale fell to the lowest level in years, the National Association of Realtors forecasts that Existing Home Sales will increase another 9% in 2013. December New Home Sales were nearly 20% higher than one year ago.

ODDS AND ENDS

This month's issue is a grab bag of various short items that I had wanted to include in previous issues, but hadn't for reasons of space. I hope you find them interesting and informative.

3 More Fiscal Cliffs Loom

Lawmakers will face three more budget deadlines over the next couple of months. Get ready for the debt ceiling, the sequester Part II and the continuing resolution. Think the fiscal cliff is causing uncertainty and has held back the economy? How about three more cliff-like deadlines over the next two-months?

Here's what still lies ahead:

<u>1. The Sequester.</u> The so-called sequester is a series of automatic cuts in federal spending that will reduce the budgets of most agencies and programs by 8% to 10%. The cuts were born of the epic 2011 fight over the debt ceiling. The idea was to create a "trigger" so onerous and indiscriminate that both parties would have an incentive to devise a smarter way to reduce deficits. Instead, 17 months later, Congress is considering a deal that would set up yet another deadline.

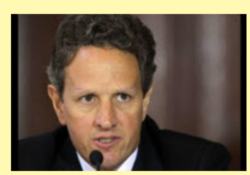
Deadline: Late February.

What's at stake: The spending cuts as laid out in 2011 would ripple out across thousands of federal programs and projects. In September, the White House budget office said, "[The cuts] would have a devastating impact on important defense and nondefense programs."

<u>2. Continuing Budget Resolution</u>. The federal government works on a fiscal year that starts every Oct. 1. Problem is it has been years since it actually enacted a real budget on time. There's a process for enacting a budget: Congressional committees are supposed to hold hearings. Experts and interested parties testify about proposals. Lawmakers deliberate over the right spending levels for each federal agency and then roll it all up into a budget. But Congress rarely ends up following that process. Instead, it usually passes short-term "continuing resolutions," which is fancy way of saying "Band Aid solution."

Deadline: The current continuing resolution expires on March 27.

What's at stake: Congress will have to pass yet another continuing resolution to avoid a temporary shutdown of some government functions, worker furloughs and a pullback in programs.



<u>3. Raising the Debt Ceiling</u>.   On 12/31/2012, Treasury Secretary Tim Geithner made it official: Federal borrowing has reached the $16.394 trillion debt ceiling. The Treasury Department, which runs the government's debt-issuance operation, can create about $200 billion of headroom by employing what it calls "extraordinary measures." That normally could cover about two months' worth of borrowing. Then, on January 23rd,

House Republicans kicked the can down the road by agreeing to suspend the debt ceiling for another 3 months. Postponing a crisis for 90 days does nothing to reassure markets, or businesses, or ordinary bondholders worried about their investments.

Deadline: Late May.

What's at stake: Last year, political brinksmanship over the debt limit led to the downgrade of the country's credit rating, roiled stock markets and raised questions about the country's willingness to pay all of its bills on time. It also wasted $1.3 billion because of the uncertainty it wrought on the complex task of federal borrowing.

Real Estate Strategies for Sellers and Buyers in 2013

Home prices are expected to rise a modest 1% by the end of 2013, according to the real estate research firm Fiserv. David Stiff, Fiserv's chief economist, notes that after some choppiness early on, prices should increase 3.4% from the second quarter of 2013 to the second quarter of 2014. In hotter regions out West, you can expect bigger gains.

This creates a new playing field for homeowners, who are finally able to sell, as well as would-be buyers who've been delaying a purchase in anticipation that prices would keep falling. The Mortgage Bankers Association forecasts that more and more house hunters will start coming off the sidelines, with new-home loans for purchases expected to jump 55%, based in dollars, in 2013.

Sellers: Don't get too excited just yet. This is especially true once you factor in the sales commission and other costs. That said; don't assume that prices will be off to the races again in a year or two. Fiserv forecasts that between now and 2017, homes will gain 3.3% a year in value. That's hardly red-hot. But at least the market isn't frozen anymore.

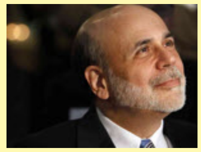
Whoever bids on your home will probably finance the purchase. That means any deal is still beholden to a third party. With so much riding on the appraisal—it can kill an agreement or require renegotiation—your agent should be present.

Your agent should also prep a package of pertinent information for the appraiser. That includes the latest comparable sales data and documents detailing any upgrades or renovations to help the seller's cause. With competition heating up, casual house shopping isn't going to cut it anymore. If you are serious about making a move, be prepared:

Buyers. Despite auspicious harbingers in the housing market, getting a mortgage remains a difficult proposition. The average FICO credit score for recently denied applications on conventional purchase loans was 729. The score on approved mortgages was 762, with a 21% down payment, monthly payments equal to 21% of household income, and total debt that did not exceed 33% of income.

Deal time. If you want to buy, you have to be ready to make an offer. Plus, your first offer should be very close to your best. If the house has been on the market for three months or longer, you can be more aggressive. But if it's a new listing, a low-ball bid will get you ignored.

What can upset the forecast in the year ahead?



- Fed chairman Ben Bernanke is lifting housing by buying bonds to keep mortgage rates low. How much longer can he keep that going?
- **The loss of mortgage deductions.** Should the tax break on mortgage interest get cut, which would throw cold water on the real estate recovery.
- **Sellers sit on the fence.** Homeowners could remain on the sidelines as the ranks of buyers grow. In that case, the inventory of homes would shrink even more, lifting prices faster than expected.
- A spate of home construction is already taking place in several major markets. In those regions, the housing stock is likely to stabilize, keeping price gains modest.
- **Banks loosen their grip.** If tight lending standards return to historical norms, realtors argue, the market could see an additional 500,000 to 700,000 home sales next year.
- **Employer confidence rises.** Since jobs are the engine of the housing market, a pickup in hiring later in the year, which economists are predicting, could accelerate a real estate rebound in the second half of 2013.

New-Home Sales Strongest in More Than 2 Years

The housing market is now showing numerous signs of improvement, including better existing home sales and home construction. A combination of near record low mortgage rates, lower unemployment and a drop in foreclosures means there are more buyers interested in purchasing, and fewer available homes. That in turn has lifted home prices. Those supply-and-demand dynamics are especially true in the new-home market.

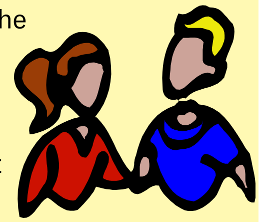
There was only a 4.7 month supply of new homes on the market in November, the same tight inventory as has been the case in four of the previous six months. The last time there was a tighter supply of new homes available was in October 2005, near the height of the housing bubble. The tight supply has lifted the median price of a new home sold in November to $246,200, up 14.9% from the comparable price a year earlier.

New-home sales and construction are becoming important drivers of overall economic growth, which is even more important with the economy facing other headwinds such as a cutback on business investment and consumer worries about the fiscal cliff. New-home sales can be more important to the economy than sales of previously owned homes since they require purchase of other goods, such as appliances, and because of the construction jobs needed to build the homes.

The continued rebound in prices likely will be a positive for both purchases and construction in the year ahead. Higher prices give current homeowners an incentive to sell their homes and procure the down payment they need for their next home purchase. Potential home buyers, who may have been on the sidelines because of uncertainty about home prices, might also be lured into the market.

Mortgage Lending Now, More Onerous and Time Intensive

As December drew to a close, I found myself at loggerheads with several lenders and the common thread was their failure to perform despite a multitude of assurances to the contrary. In my business, your lender is your reputation. If they perform poorly, for whatever reason, it makes you look bad because, after all, you chose them. So, it's something that one can ill afford to tolerate. Herewith are a few regrettable examples:



One case involved a married couple who wanted to buy a home using the husband's VA eligibility. Both husband and wife had excellent FICO scores above 750. The wrinkle was that they had been self-employed for 21 months instead of the requisite 2 years. The other issue was that there is a tendency among most self-employed borrowers to expense as much as possible so as to minimize the taxman's bite. Three different lenders' reps said that providing the borrowers claimed X amount of income (they had filed for an extension on their 2011 taxes), they [the lender] could do a VA purchase money loan for them. The couple did as instructed. Yet, over a period of 2 ½ months, despite what the reps told me (one of whom had been underwriter prior to being promoted to account executive), all the various lenders' underwriters declined the loan and the clients lost the home to a back up offer.

How about this one for being nit-picky? Another case involved a borrower whereby the lender had approved the loan and we were ready to go to docs until the lender discovered that during the previous twelve months that the borrower had been making the mortgage payment there were two months in which her ex-husband's name appeared on the bank statements because it had been their joint checking account prior to the dissolution of the marriage and she had forgotten to have it removed.

Consequently, we got to do the work all over again, two months later, now that the borrower had a full year's worth of payments from a bank account with solely her name on it. This time, however, the lender's back office drug their feet on processing the loan such that what had earlier taken a month to do now took 4 months. At one point the account exec told me that the loan was "cursed" but among the things that were truly profane was how long it took their back office to understand what a "change of circumstance" was, that the loan amount was not $174,500, but $174,000, taking 3 weeks to complete a quality control review was excessive when the norm is 48 hours, or sending out docs with expired dates on them—not once, but twice.

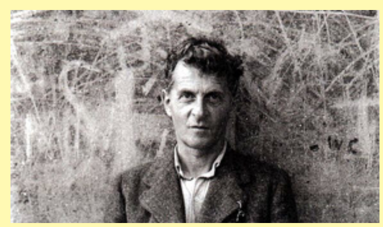
More recently I had a borrower with the highest mid-FICO scores of any previous client—an 818. He also had substantial income and assets and enjoyed stable long-term employment—in every way the ideal borrower. On top of that, he was readily

accommodating when it came to providing the necessary documentation. Even though this was during the Thanksgiving and Christmas holidays, the lender assured me that they could complete his refinance in 30 days. We did everything in our power to get him into docs as soon as possible, yet he signed three weeks past the time his loan was to have originally closed and it funded a full two weeks after he had signed the loan docs. The delay was largely attributable to the wrangle between the lender and the Home Owners Association's over their insurance policy, the borrower's HO6 coverage and having the funder from hell. One-hundred and forty-five of the two-hundred and thirty-nine emails in the file occurred after the client had signed loan docs. Escrow really earned their money on this file. All in all, it took just over twice as long to get the loan closed as had been promised. Phone calls and emails to him have gone unreturned. Guess which party is likely being blamed for the protracted closing?

During the holidays, purchase and refinance business typically falls off. Who wants to move or become weighed down with documentation when there is Xmas shopping to do, travel arrangements to see to, or holiday feasts to be prepared? As a result lenders' often have many of their staff take their vacations during the Thanksgiving and Christmas seasons. Consequently, doing loans during the holidays is fraught with peril. On one case with a 45-day lock, we waited 32 days for loan approval and another one, involving 7 loans, the turn time was 35 days. Our locks were nearly expired by the time we received approval. To the lenders credit, they extended the locks at no cost to the borrower. In the case of the former, the underwriting staff was reduced from three to one, after one quit and another came down with the flu. All of this took place against the backdrop of the "fiscal cliff" negotiations when rates were so very attractive. It's enough to make yours truly have a coronary.

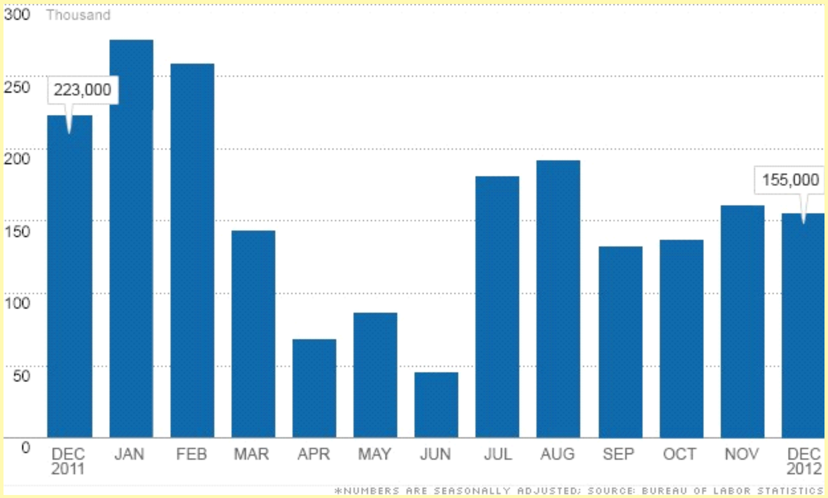
Lest you think that these were extraordinary cases, I assure you that these are all too mundane. I have talked with a number of borrowers and heard horror stories that far exceeded these. "Six-months it took Bank of America to get our refinance done," one frustrated borrower complained to me. Another echoed a similar time frame with Wells Fargo. And one abusive borrower (whom I chose not to represent) got her karmic just desserts as she had been in a refinance with Coldwell Banker for 9 months—as the saying goes, "Sometimes, payback's a bitch!"

Ludwig Wittgenstein, the philosopher, famously wrote: "Words are deeds." This quotation is resides on the desk in my office to remind me and others that just as one's actions have consequences so do one's words. Yet with so many people in my profession, one's word seems to be "no big deal". In all of the above cases, there was little else one could do but to take to take the lender(s) at their word. At the same time, you know that you can't always believe what you're told: you have to temper the assertions of lenders' reps while allowing for salesmen's enthusiasm, optimism, or prevarication (you pick). For some of us, though, these "words" constitute the very epitome of stress.



Consequently, I made a couple of policy decisions to usher in the New Year 1) was to go with 45-day locks despite lenders' affirmations that they could close loans in 30 days and 2) issue rate sheets that reflected this pricing.

December Jobs Report: Hiring and Unemployment Steady



The job market ended 2012 with more growth, as moderate hiring continued at the end of the year. The economy added 155,000 jobs in December, bringing the total number of jobs added in 2012 to 1.84 million, the Labor Department. The unemployment rate held steady at 7.8%. Economists expected the report to show that 150,000 jobs were created last month and the unemployment rate remained unchanged. The report reflected revisions the Labor Department made for 2012, which included raising the November unemployment rate to 7.8%, up from the original 7.7%.

The private sector continued to drive the growth, adding 168,000 jobs, while government employers shed 13,000 positions. Employment increased in health care, the hospitality industry and manufacturing. Construction jobs were also up, likely as a result of rebuilding efforts after Hurricane Sandy.

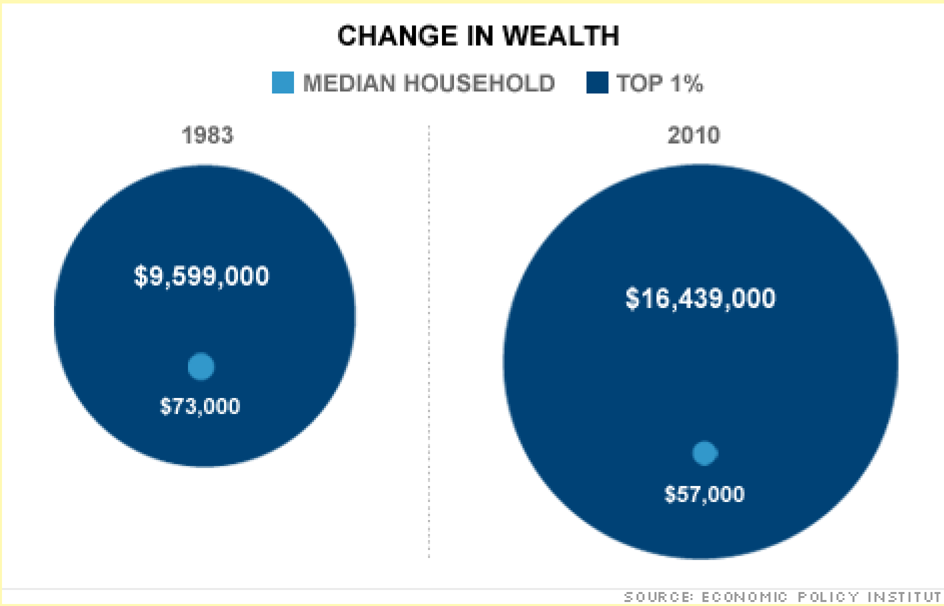
December's overall figures were only slightly better than 2012's average growth of 153,000 per month, which mirrored the 2011 pace. That's not enough to make a significant dent in the unemployment rate, economists said.

There remains a deep hole left by the financial crisis and millions are still out of work. The number of long-term unemployed stayed essentially unchanged at 4.8 million, or 39.1% of the jobless. One bright spot in the report, economists said, was that average hourly earnings rose 2.1% in 2012.

THE WEALTHY ARE 288 TIMES RICHER THAN YOU

The wealth gap between the richest Americans and the typical family more than doubled over the past 50 years. In 1962, the top 1% had 125 times the net worth of the median household. That shot up to 288 times by 2010, according to a new report by the left-leaning Economic Policy Institute. That trend is happening for two reasons: Not only are the rich getting richer, but the middle class is also getting poorer.

Most Americans below the upper echelon have suffered a decline in wealth in recent decades. The median household saw its net worth drop to $57,000 in 2010, down from $73,000 in 1983. It would have been $119,000 had wealth grown equally across households. The top 1%, on the other hand, saw their average wealth grow to $16.4 million, up from $9.6 million in 1983. This is due in large part to the growing income inequality divide, as well as the sharp rise in value of stocks over the period. Net worth counts all assets including real estate holdings, minus debts. “The distribution of wealth is way more unequal than the super-unequal distribution of income and wages," said, an economist with the institute.

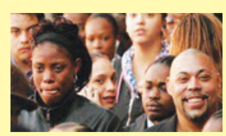


Wealthiest Americans have 288 times net worth of typical family

The biannual report, entitled The State of Working America, looks at the changes in income, jobs, mobility, poverty, wealth and other areas in recent decades, as well as during the Great Recession. While the wealth and income gaps have been expanding for decades, the report shows that the trend was accelerated during the Great Recession. Median family income was 6% lower in 2010 than a decade earlier. As for wealth, while the housing bust and the spike in unemployment hurt people at all levels of the spectrum, it affected middle-class and lower-income Americans to a greater degree.

The average wealth of the top 1% dropped just 15.6% between 2007 and 2010, while the median net worth of American households sank 47.1%. That large decline in median wealth is largely responsible for driving the gap to such heights.

Homeowners at the bottom of the wealth distribution were, on average, underwater, meaning they had no equity in their homes because their mortgages were more than the property's value. The Great Recession hit black and Latino households particularly hard. It wiped out half the wealth of a typical black household, leaving them with a median net worth of $4,900. And the median wealth of Latino families plummeted 86.3% to $1,300. This compares to $97,000 for white households.



Part of the reason for the eye-popping statistics is because blacks and Latinos had a relatively small amount of net worth so the drop is larger in percentage terms. Also, their homeownership rates grew faster than whites' during the housing boom, but fell further when it collapsed. The typical black and Latino households don't own any stocks, and the typical black family has no home equity.

Overall, the widening of the wealth gap in recent decades is due to two things. The increase in income inequality means the wealthy have more to save and invest every year. Furthermore, the growth of Wall Street means that the rich, who are much more likely to own stocks, accumulated wealth even faster.

MORTY'S MAILBAG

Q. You seem to have the opinion that a lot of the people in Washington vote their party's line or are ill-informed about what they are voting on. Do you have an idea as to what system would be better?

A. Everyone has opinions, but this does not make them factual. Congress is no different. What I see in the House and the Senate is that members of these august bodies are often swayed by their party's ideology or are completely ignorant about macroeconomics. It seems to me that lawmakers who are responsible for making policy decisions should be knowledgeable about in those areas that they are voting on. In my estimation there should be a requirement to be on committees that votes on Appropriations, the Budget, Banking, Housing, and Urban Affairs, Commerce, Financial Services, and Ways and Means and that those voting be thoroughly schooled in macroeconomics. Note: this is my opinion and as I stated at the outset this does not make it factual, nor is this likely to become law. Simply put, I believe that our representatives that vote on economic policy should be conversant with what they are making policy on.

THE ACADEMY OF MOTION PICTURE ARTS AND SCIENCES

I think that a system similar to what the Academy of Motion Picture Arts and Sciences (AMPAS) uses for its Oscar balloting would be preferential. Only those members who are directors themselves are permitted to vote for Best Director. Similarly, actual costume designers get to vote for Best Costume Design. This way the people who know something about the actual job [subject] and what it entails are voting in that category. The exception is that every member of the Academy gets to vote for Best Picture so it is very democratic in that all of the various categories are incorporated into the making of a picture.

Thus, I believe that such a requirement would be a vast improvement over what we now have wherein you have people with hard-core ideologies and know-nothings (about matters economic) making economic policy decisions that affect us all.

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

SPECIAL(S) OF THE MONTH

- Conforming 5/1 ARM @ 2.125%
- Conforming 15 yr. fixed @ 2.50%
- Jumbo 5/1 ARM @ 2.375%
- Jumbo 30 yr. fixed @ 3.5%
- FHA/VA Conforming 30 yr. fixed @ 3%/3.125%
- DU Refi Plus Conforming 30 yr. fixed @ 3.25%

RATE SUMMARY

Rates have worsened in the past 30 days

*Conforming loan rates are 1/8th to 1/4th higher

*Jumbos are 1/8th higher

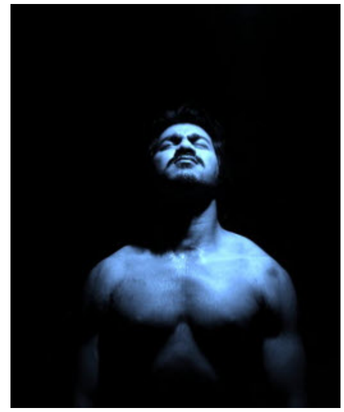
*Governments are ¼ to 3/8ths higher

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

Whenever I feel blue, I start breathing again.



NEXT ISSUES TOPIC: