Newsletter Vol. 12 Issue 8

August 2015

mortgagestraightTalk.com

Tel 760 726 4600

Cel 760 717 8584

Fax 760 639 0785

Rod@mortgagestraightTalk.com

IN THIS MONTH'S ISSUE

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Small Miss On Job Gains (Week ending July 3, 2015)

Compared to forecasts, this was a mildly disappointing report on job gains and wage growth. Against a consensus forecast of 230K, the economy added 223K jobs in June. Drawing more attention, there were downward revisions to prior months of 60K. In addition, Average Hourly Earnings were just 2.0% higher than a year ago, down from 2.3% last month. Stronger wage growth is normally seen in an improving labor market.

The Unemployment Rate declined from 5.5% to 5.3%, the lowest level since April 2008. However, this was mostly due to a large number of people leaving the labor force,

BEST BUYS THIS MONTH

- Conforming 30 yr. Fixed @ 3.625%
- Conforming 5/1 ARM @ 2.500%
- High Balance Conforming 15 yr. Fixed @ 2.990%
- Jumbo 30 yr. Fixed @ 3.875%
- Jumbo 5/1 ARM @ 2.750%
- FHA 30 yr. High Balance Conforming Fixed @ 3.250%
- DU Refi Plus/Open Access 30 Yr. Fixed @ 3.625%

Conforming to $417,000 < High Balance Conforming $417,001 to $562,350 < Jumbo

I ALSO DO:

- COMMERCIAL LOANS (more than 4 units)
- "HARD MONEY" LOANS
- REVERSE MORTGAGES
- FOREIGN NATIONALS
- DELAYED FINANCING
- STATED INCOME LOANS
- MANUFACTURED HOMES
- ASSET DEPLETION LOANS

which generally is not viewed as a sign of strength. These readings are volatile month to month, and the June results essentially just reversed the large addition to the labor force seen in May.

The next major step for Greece is a referendum scheduled for July 5. Greek voters will have the opportunity to decide whether to support the unpopular reform measures demanded by creditors in exchange for a bailout. European leaders view the referendum as an indication of whether the Greek people want to remain in the European Union. The outcome will heavily influence the direction of future negotiations.

China & Greece (Week ending July 10, 2015)

China is the second largest economy in the world, and it is growing at a much more rapid pace than the U.S. or Europe. This means that China is responsible for a large portion of global economic growth. Recently, investors have become more concerned that the pace of China's economic growth may be slowing more quickly than expected. Slower global growth reduces expectations for future inflation, which is positive for mortgage rates.

The outcome of Sunday's Greek referendum was not the expected result. The Greeks voted against accepting the reform measures demanded by creditors in return for additional aid. Greece already is unable to repay its debts, and another large payment is due on July 20. Economic conditions in Greece are worsening. Greek officials and creditors are continuing to negotiate, but it is still not certain whether a deal will be reached. Without a bailout, Greece may be forced to exit the European Union. The uncertainty has increased demand for relatively safer assets, including U.S. mortgage-backed securities.

Retail Sales Disappoint (Week ending July 17, 2015)

The Greek debt drama is not over, but its strong daily influence on global financial markets may be. After months of negotiations, Greece and its creditors have agreed to the framework of a badly needed bailout deal. Many steps remain, but the major hurdles have been overcome. The main issue remaining is whether the Greek government can successfully implement the unpopular reform measures required by creditors

One of the best measures of U.S. economic activity is the monthly Retail Sales report. After a large increase in May, continued improvement was forecast for June. This did not happen. Instead of the expected increase of 0.5% from May, June retail sales, excluding volatile auto sales, declined slightly, and the figures from May were revised downward as well. Slower economic growth reduces inflationary pressures, which is favorable for mortgage rates.

Mixed Home Sales Data (Week ending July 24, 2015)

The recently released housing data contained mixed news. June existing home sales increased 3% from May to the highest level since February 2007, and they were 10% higher than a year ago. Strong demand and limited inventory continued to push prices higher, and the median existing home price reached an all-time high. By contrast, June's new home sales declined 6% from May to the lowest level since November, falling well short of expectations.

Although both reports cover activity in June, existing home sales counts closings, while new home sales measure signed contracts. As a result, the latter report reflects more current activity. However, new home sales make up just 10% of single-family home purchases, a small data set, while existing home sales account for 90%. As a result, readings for new home sales are very volatile month to month.

Over the past week, investors grew more concerned about the pace of global economic growth. There have been several indications that growth is slowing in China and Latin America. In particular, a number of large U.S. companies with global sales pointed to these two regions as the cause of weaker than expected earnings. While this was bad news for stocks, it was positive for mortgage rates, since slower growth reduces inflationary pressures.

No Surprises from Fed (Week ending July 31, 2015)

Wednesday's Fed statement did not contain much new information for investors. The big question remains when the Fed will raise the federal funds rate, and the statement provided no additional help in determining the timing. Most investors expect that a rate hike will occur before the end of the year. The most notable change in the statement was a small upgrade in the performance of the labor market and the housing market.

A big miss in a report which seldom has much impact helped mortgage rates improve on Friday. The Employment Cost Index revealed that compensation increased just 0.2% during the second quarter, far below the consensus of 0.6%. This was the lowest reading ever recorded since the series started in 1982.

Thursday's Gross Domestic Product (GDP) data, the broadest measure of economic activity, revealed that GDP grew at a 2.3% annual rate during the second quarter, which was below the consensus forecast of 2.7%. However, the first quarter results were revised higher by 0.8%, offsetting the shortfall during the second quarter.

EVERYTHING YOU NEED TO KNOW ABOUT REVERSE MORTGAGES [IN ABOUT 7 MINUTES]

When the topic of reverse mortgages came up with a borrower a while back, he said he'd heard of them, but admitted that was about the extent of his knowledge. He asked if this was a relatively recent program. I said, "No, they have been around for about 30 years. So, providing a little background about them seems like as good a jumping off point as any when it comes to their discussion.

A Little History

The reverse mortgage was conceived by the Federal Home Loan Bank on January 1, 1979. The FHLB's mission was to fund monthly installments to borrowers that would use the existing equity in their home as collateral. The reverse mortgage was designed to alleviate the shortfall in a senior homeowner's monthly budget by providing money to older homeowners who had substantial equity in their homes, yet needed cash to live on.

Unfortunately, the practical execution of the early versions met with numerous problems and very few lenders were willing to offer the reverse mortgage as an option. A primary concern among lenders was the fact that the lender was agreeing to make payment to the homeowner with no definitive date set for loan repayment. If the reverse mortgage payments should extend over a long period of time, physical or economic changes could arise that would affect the value of the property. The lender could not be assured that there would be enough value remaining in the property to repay the loan at the time the homeowner died or relocated.

Homeowners also had concerns about reverse mortgages. Was there a guarantee that the monthly payments would continue if the bank were sold or should fail? Was it possible that the entire loan amount could come due all at once? Suppose a homeowner originated a 15-year reverse mortgage when she was 70 years old but was not ready to relocate at age 85? These questions, plus the natural reluctance of seniors to remortgage their home after many years owning it free and clear, kept the demand for reverse mortgages very limited.

Although it was possible to apply for reverse mortgage loans from 1979 to 1989, actually obtaining one was very difficult. Without any provision for insuring the loan, lenders were simply not interested. Fortunately, help was on the way through the Federal Department of Housing and Urban Development (HUD). The Housing and Community Development Act of 1987 established a Federal Mortgage Insurance Program, Section 255 of the National Housing Act, to insure home equity conversion mortgages. By providing mortgage insurance through FHA, HUD, endorsed the reverse mortgage program that had been all but buried, despite its theoretical availability for the previous ten years.

On July 24, 1989, the Federal Housing Administration (FHA) introduced an experimental program to insure a limited number of reverse mortgages, called "Home Equity Conversion Mortgages (HECM)," with restrictions to protect both lenders and homeowners.

By the time the experimental program ended six years later on September 30, 1995, HUD had pledged FHA mortgage guarantees on 25,000 reverse mortgages. This gave the program new life and credibility. Now the full faith and credit of the U.S. government stood behind the promised performance of the mortgage companies that would originate the new loans. The next step was to find a source willing to purchase these loans from local lenders: Enter the Federal National Mortgage Association, now officially known as Fannie Mae.

Fannie Mae acts as a conduit of for money needed to fund mortgages. Fannie does not lend money to homeowners; but it acts as a conduit for money needed to fund mortgages by buying mortgages from a national network of over 3,000 approved lenders who originate mortgage loans. By selling their loans to Fannie Mae, or pooling them to issue mortgage-backed securities that are then sold on the open market, lenders replenish their supply of capital so they can make more mortgage loans to U.S. homebuyers.

Fannie Mae became a strong advocate of reverse mortgages by agreeing to purchase these loans and has continued to be the nation's largest investor in reverse mortgage loans since 1989.

In 2000, convinced that after 20 years of experimenting, the country was ready for wide-scale use, HUD declared the HECM a permanent HUD program.

The Purposes of a Reverse Mortgage

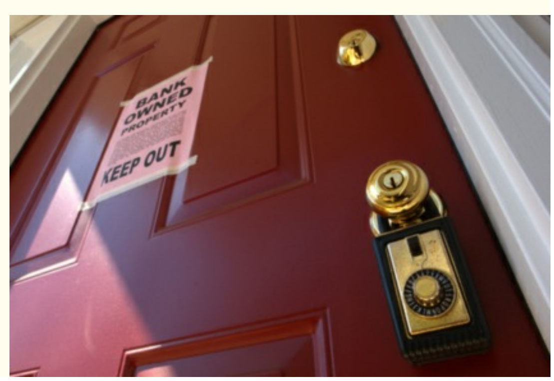
Now, that you know they're a valid instrument and have been around for 30 years, let's see why people want them. With a reverse mortgage THERE IS NO MONTHLY MORTGAGE PAYMENT! It is the #1 reason borrowers take out a reverse mortgage. The #2 reason is TO ACQUIRE CASH FOR WHATEVER PURPOSE, e.g., pay off medical bills, eliminate credit cards, purchase a new car, renovate or update a home, travel, help the grandchildren attend college, household expenses or simply to improve the quality of your life. The proceeds are tax-free.

Basic Requirements for a HECM

Five specific requirements must be met to qualify for a HECM

1. Both the borrower and spouse (or co-owner) must be 62 or older.
2. The home must be an FHA-approved single-family home or one unit occupied by the homeowner of a two, three-or four-unit building that has FHA approval. FHA-approved townhouses are also eligible. Manufactured homes are eligible if the borrower owns the land beneath the home and the home is permanently fixed to the foundation. Mobile homes and cooperatives are not eligible.
3. The borrower and spouse (or co-owner) must own and occupy the home as the principal residence.
4. The home must be free of debt or nearly paid off. Any low mortgage balance remaining on the home must be paid off, BUT it may be financed as part of the HECM through a cash draw at closing.
5. There are no financial qualifications; nevertheless, if the owners are in bankruptcy or are filing for bankruptcy, mortgage lenders cannot process their applications. Otherwise, there are no minimum or maximum income requirements or other financial restrictions.

Safeguards Built into the HECM Program



1. The loan will never become due, as long as one of the owners occupies the home as the primary residence.
2. Payments will continue during the full lifetime of the surviving owner, even if the payments should exceed the full value of the home.
3. No matter how much money is paid out to the homeowners, even in the case where people outlive the

value of their homes, the homeowner or the homeowner's estate will never have to repay any amount that may exceed the value of the home.

4. If for any reason, the lender should fail to continue payments as agreed upon in the loan, FHA will continue to make the payments.

FHA insurance also protects the lender by assuring that full repayment of the loan balance will be made, even if the total amount should exceed the current value of the property.

Different Plans

The total amount that may be borrowed with a RM depends on three factors: age and number of borrowers, the value of the property, the average mortgage interest rate. There are four types of reverse mortgage plans: Tenure, Term, Line of Credit reverse mortgage, and Lump Sum reverse mortgage.

1. Tenure RM (monthly payouts as long as the borrower remains in the property). The Tenure plan is designed to provide payments to senior homeowners who need to supplement their income to achieve a balanced budget. It provides payouts for life or until the surviving homeowner either dies, decides to sell the home or chooses to relocate. In the event of death of one of the homeowners, the payments continue for the rest of surviving spouse's or co-owner's life. (Note: the monthly payments under the tenure plan are less that those received under a term plan).
2. Term RM (monthly payouts for a specified time). The term plan is very similar to the tenure plan except that the borrower receives payouts for a specified number of years. A term plan could be a good choice for a senior homeowner who needs additional monthly income for a set period of time. A term plan could be used to pay for extended home health care for a terminally ill spouse or to provide funds to finance a handicapped-accessible van.
3. Line of Credit RM (draws up to a maximum amount at times and amounts of the borrower's choosing). The line of credit plan is an attractive option for senior homeowners who do not need supplemental income on a monthly basis but would like to have the ability to draw on funds to pay for unusual or unexpected expenses. An interesting difference with this plan is that the amount of cash remaining available to the homeowners actually INCREASES each month until all of the remaining funds have been withdrawn. The increase in the available funds is determined monthly by taking 1/12 of the sum of the interest rate being charged on the loan plus the one-half of a percent on a FHA annual mortgage insurance premium.
4. Single Disbursement Lump Sum (total amount available disbursed at closing). The lumps plan is similar to the modified tenure or modified term plans (see below) where one large amount is withdrawn at the origination of the loan. Under the lump sum plan, the senior homeowners elect to draw all of the cash available to them at the time the loan is originated. This amount is capped at 60% of the principle limit and/or mandatory obligations plus 10% of the principal limit. (Note: The reason that FHA is cautious about lump sum plans is that in the past some seniors drew all of the cash available to them and later had no money to pay their property taxes and homeowners insurance for which all borrowers are responsible, regardless of the type of plan selected).

There are two additional options that combine the components of the four plans to address both short-term and long-term problems:

1. Modified Term (combining a line of credit with monthly payouts for a fixed number of years)
2. Modified Tenure (combing a line of credit with monthly payouts for as long as at least one borrower remains in the home).

This flexibility allows borrowers to:

- Switch between a term plan and a tenure plan;
- Lengthen or shorten a term payout plan;
- Add a line of credit to either the tenure or term plan;
- Convert to a line of credit plan from either tenure or term plan; or
- Add a monthly payout plan to a line of credit.

The Process

The reverse mortgage loan will usually take **four to six weeks** from the time of loan application to the date of closing.

Step I. Obtaining Counseling. FHA requires that all potential reverse mortgage borrowers attend at least a single two-hour counseling session with a HUD-approved reverse mortgage counselor before applying for a reverse mortgage. The counseling focuses on the different types of HECMs and discusses different alternatives to obtaining a HECM. The purpose of the counseling is to help the senior homeowner decide if a HECM is the most appropriate way to meet financial needs. If face-to-face counseling is not possible, it is possible to make arrangements for counseling by telephone.

Upon completion of the counseling session, a Certificate of HECM Counseling is issued that is valid for 180 days. It must be presented to the reverse mortgage lender at the time of application. If the reverse mortgage loan is not closed with the time period a renewal certificate must be obtained. Renewal is generally granted without any requirement for additional counseling.

There is typically a charge of $125 for the counseling session.

Step II. Call me.

How Much Can I Get?

Market Value and FHA Loan Limits. The market value of one's home will determine the maximum claim amount that a lender can make. The maximum claim amount is the maximum dollar amount HUD will pay on a claim. It is the lesser of:

- The appraised value, or
- The maximum FHA county limit for a one-family residence

The amount available to the homeowner is based on a percentage of this amount, taking into consideration the age of the borrowers and current interest rates. The market value cannot exceed the FHA loan limits that are set for a specific geographic area. FHA loan limits are determined by taking 95 percent of the average house price in a specific city, county, or metropolitan area. The FHA loan Limit for San Diego County is $562,350 and it tops out at $625,500 (in L.A., Orange County, & San Francisco).

Market Value, FHA loan limits, Equity, and the Age of the borrower(s) are the factors that affect this calculation. However, the National Reverse Mortgage lenders Association (NRMLA) is a nonprofit organization dedicated to providing valuable information for seniors considering a reverse mortgages and at its website, www.reversemortgage.org they maintain a calculator with which you can answer this question for yourself by just entering your birth date and the estimated value of your home. Any existing debt on the house will need to be paid off, closing costs and mortgage insurance premiums and are all variables that will affect the amount available.

Equity. The amount of equity in the home is defined as the value of a property minus any outstanding loans. In most cases, the senior homeowner owns the property free and clear. If there is an outstanding mortgage loan balance still in place, it must be paid off at the time of closing. An advance may be made from the reverse mortgage loan to make this payment.

Age. This refers to the age of the borrowers, not the property. All borrowers on a reverse mortgage must be at lest 62. There is no upper age limit, however, the older the borrowers, the higher the amount of monthly payouts they are likely to receive.

The Interest Rates

Interest rates may be FIXED or ADJUSTABLE. So that you have some idea as to what the prevailing rates are for the fixed and adjustable rates I am quoting here from the rates for the week of 6/23/2015. At present, the initial rate on a fixed rate reverse mortgage is 5.06%. Because this is administered by FHA, mortgage insurance is required. And, with mortgage insurance of 1.25% added to the fixed rate, the total rate comes to 6.30%.

With the ADJUSTABLE rate programs, there are two options: (1) an annually adjusting rate OR (2) a monthly adjusting rate. The annually adjusting rate index is .767%, plus the lender's margin of 2.5%, brings the initial rate to 3.267%. Because Mortgage Insurance is required it bumps up the rate by 1.25% to 4.517%. Safeguards are built into reverse mortgages that provide limits on how much the interest rate may be increased. The annually adjusting rate may not increase more than 5 percent over the life of the loan, and no more than 2 percent in any year. So, in this instance, the life-time cap on the annual adjustable rate would be 8.267%.

The monthly rate index is 0.187%, plus the lender's margin of 2.5% brings the initial rate to 2.687%. Again, because Mortgage Insurance is required it bumps up the rate by 1.25% to 3.937%. Again, safeguards are built into reverse mortgages that provide limits on how much the interest rate may be increased. The monthly adjusting rate may not increase by more than 10 percent over the life of the loan, but there is no limit to the amount the rate can change at monthly adjustments, although it must not exceed the 10 percent cap. So, in this instance, the life-time cap on the adjustable rate would be 12.687%.

What Is It Going to Cost?

Closing costs are not cheap; in fact, the grand total may create a mild shock for the prospective borrower. Closing costs are unavoidable and there is no one to pay them except those obtaining the loan. But, these closing costs can be reimbursed to the borrower during the settlement on the loan.

Total Annual Loan Cost (TALC)

Federal law requires that lenders disclose the Total Annual Loan Cost (TALC) for every reverse mortgage. As the TALC combines all of the loan's costs into one total, it is useful in comparing the cost of one reverse mortgage with another. The upfront costs of the loan (origination fee, closing costs, and insurance premium) represent a large part of the total amount paid at closing.

When amortized over time, the longer the homeowners remain in the home, the less expensive the reverse mortgage loan becomes.

The Costs

The only costs that lenders actually control are the origination fee. The origination fee is a fee charged by the lender to cover the cost preparing the loan application and processing the loan. FHA origination fees are limited to a charge of 2 percent of the maximum claim amount on the first $200k, then 1% up to $625K for a maximum of $6,000. This charge can be financed as part of the loan. Third-party closing costs for services and charges such as appraisal, credit report, title report, insurance, recording fees and mortgage insurance, seldom vary much from one lender to another but will vary from one locality to another and should be fully disclosed along with the amount charged for origination and servicing. All closing costs may be financed as part of the reverse mortgage loan.

Mortgage Insurance Premium

There is an ongoing charge for covering the risk of FHA insuring the mortgage pool. A mortgage insurance premium is charged on all HECM loans. This cost consists of two separate parts and may be rolled into the loan balance. The two parts of the premium are:

1. An Upfront Mortgage Insurance Premium (UMIP) of .5% percent of the property value. This charge is added to the loan balance.
2. And a Monthly Mortgage Insurance Premium (MMIP) which is the annual premium divided by 12 and charged monthly.

This mortgage insurance premium guarantees that the monthly advances will continue and that no repayment of the loan must be made as long as the seniors live in the home. It further guarantees that regardless of any change in value of the property, the total loan balance due can never exceed the maximum claim amount that is determined at the origination of the loan. No deficit created by a drop in the value of the home will be charged to the senior homeowners, their estate, or their heirs.

Additional costs: Escrow accounts, Maintenance and Repairs

The mortgage lender can also escrow premiums for homeowner's insurance and taxes. With a term or tenure plan the lender deducts from the monthly check one-twelfth of the annual cost and pays the insurance company once each year and the taxes every six-months.

Although most people are not aware of this, any mortgage can be declared in default if the borrower fails to maintain the property in good condition or neglects to make repairs as needed.

A major catastrophe such as a broken water main or a failed septic tank could create a tremendous financial problem. Rather than panic, the holders of a reverse mortgage should immediately contact the mortgage lender. The lender will do everything possible to restore the property—and the homeowners' life—back to normal.

At the time of application, the mortgage lender will require a check to cover the cost of an appraisal and a credit report. When the loan closes, all costs, including reimbursement for the appraisal and credit report, can be rolled into the mortgage loan, leaving the homeowner's finances intact; in other words, no money out of pocket.

UNEMPLOYMENT FALLS TO LOWEST LEVEL IN 7 YEARS

U.S. unemployment fell to 5.3%, its lowest level since April 2008, according to the latest government data released Thursday. It was an even healthier rate than many economists predicted and brings America back to a rate last seen before the financial crisis.

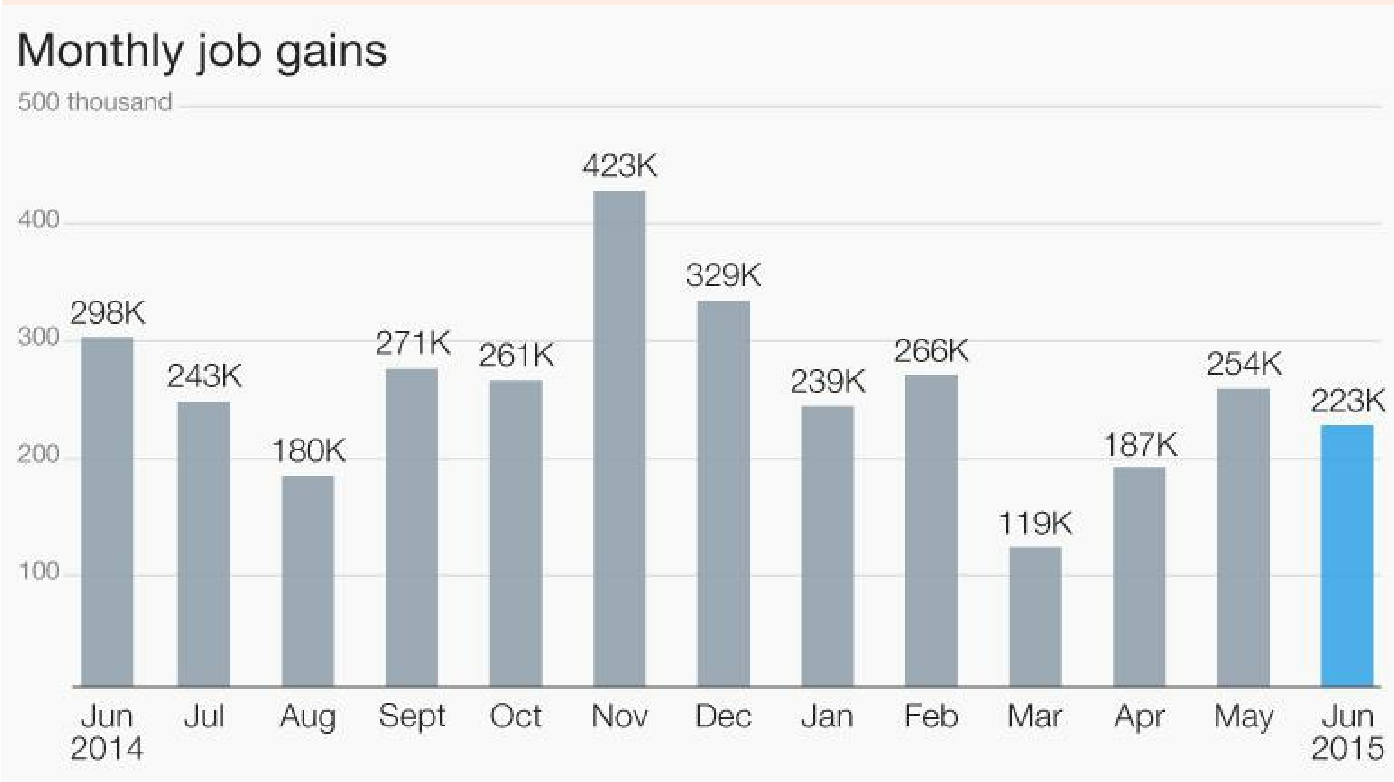
Hiring remains robust: the U.S. added 223,000 jobs in June. There's just one major complaint for many: Where's the wage growth? Average hourly earnings rose only 2% annually in June—still far below the goal for a healthy economy of 3.5% or more. There are also concerns about the labor force participation rate, which measures how many Americans are employed or looking for work. It hit a 37-year low in June. That means a lot of people aren't working or have given up trying to look for work.

Still, June's job strength is the beginning of an important summer for the economy. The U.S. is the growth engine for the world this year as many other nations slow down.

After years of waiting, the Federal Reserve could raise interest rates in September for the first time since 2006. A rate hike would be a healthy sign that the economy is almost fully recovered from the Great Recession. Other economists saw the glass half full in June.

The catch: the economy needs to perform well between now and September.

Jobs gains came across the board last month. Coming on the heels of the Supreme Court's decision to uphold the Affordable Care Act, health care gained 40,000 jobs in June. Hiring in professional and business services—accountants, lawyers—rose by 64,000 too.



The job news comes right after another key development: Americans are picking up their spending. The personal consumption expenditure—a measure of spending—posted the best monthly rise in May since 2009, according to the Commerce Department.

Still, the news wasn't all cheery. Wage growth remains well below where the Fed and most Americans—want it to be, and the number of people who work part-time jobs but want full-time jobs also remains very high at 6.5 million. These so-called involuntary part-time workers are a major concern for the economy and the Fed.

There's hope that wages will rise since unemployment has been so low for several months now, but that pick up has yet to happen.

Overall, June's job progress confirms what many experts have believed for months: after a winter set back, America is regaining momentum.

RATE SUMMARY

This month, mortgage rates improved considerably.

***Conforming programs—an 1/8th to 1/4th better ↓**
***Jumbos—a ¼ better ↓**
***Governments—nil change, except for the high balance conforming 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.

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 be identified as a "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