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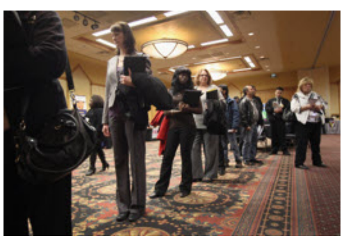
IN THIS MONTH'S ISSUE

MORTGAGE MARKET MOVES AND ANALYSIS

10/5 Employment Data Exceeds Expectations



An improving US economic outlook and increased optimism about Europe were unfavorable influences on mortgage rates this week. Fed purchases of mortgage-backed securities (MBS) under QE3 helped offset the losses, though. As a result, after several weeks of declines, mortgage rates ended the week just slightly higher.

Friday's Employment report was the big news this week. Against a consensus forecast of 120K, the economy added 114K jobs in September, but the data from prior months was revised higher by 86K. The Unemployment Rate unexpectedly dropped to 7.8%, the lowest level since January 2009, from 8.1% last month. Average Hourly Earnings, an indicator of wage growth, increased moderately from August. Any way you look at it, the September data exceeded expectations. This increases future inflationary pressures, which is negative for mortgage rates.

The results for the change in the number of jobs and for the Unemployment Rate are derived from different pools of data, and sometimes the two sources show wide discrepancies in a particular month. The Unemployment Rate is based on a survey of a small sample of households, and it can be extremely volatile, while the Payrolls data is based on information collected from businesses and tends to be more precise. This month, the household survey showed a gain of 183K jobs, which was the highest level since 1983, and far above the increase seen in the Payrolls data. Over longer periods, the two sources generally show similar results, but not necessarily in the short-term.

10/12 Global Concerns

During a relatively quiet week, global concerns caused investors to increase demand for safer assets, stronger than expected US economic data had little impact. As a result, mortgage rates ended the week a little lower.

Worried about the pace of global economic growth and unrest in many regions, investors shifted to relatively safer assets; including US government guaranteed mortgage-backed securities (MBS). Protests and riots have been seen in Spain and Greece as a result of austerity measures. Tensions have been rising in the Middle East. Questions remain about economic growth in China. Strong results for this week's US Treasury auctions and rising MBS prices reflect the global appetite for US bonds, which is positive for mortgage rates.

Weekly Jobless Claims dropped sharply to 339K, the lowest level in more than four years and well below the consensus of 370K. Combined with last week's decline in the Unemployment Rate to the lowest level since January 2009, this decrease could be viewed as very positive news for the labor market. The enthusiasm was muted, however, by questions about temporary data reporting issues which suggest that the improvement will not be seen in future results.

10/19 Strong Data Hurts Mortgage Rates

In recent weeks, mortgage rates have been pushed and pulled mostly by Fed policy expectations and European Union headlines. With little news on these fronts, though, the US economic data emerged as the main driver of mortgage rates this week. Unfortunately for mortgage rates, the data was generally stronger than expected, and rates ended the week higher. This week's economic data exceeded expectations nearly across the board. Important broad indicators of economic growth, including Retail Sales and Industrial Production, showed solid increases from last month. The Philly Fed manufacturing index rose to the highest level since April. Perhaps the biggest surprise came from the housing data. While stronger economic growth is great news for the economy, it tends to increase future inflationary expectations, which is bad news for mortgage rates. The national housing data released this week continued to reflect solid improvement. September Housing Starts jumped 15% from August to the highest level since July 2008. Building Permits showed similar strength. September Existing Home Sales were 11% higher than one year ago, making 15 straight months of increases on an annual basis. Inventories of unsold existing homes declined to the lowest level since March 2006. The October NAHB Home Builder Sentiment index rose slightly, its sixth consecutive monthly increase, to the highest level since June 2006.

10/26 GDP Stronger

In a week packed with a Fed meeting, significant economic data, and Treasury auctions, there were no major surprises to be found. European events, often a source of market moving headlines, also had little impact this week. As a result, mortgage rates ended the week with little change. After the Fed's blockbuster announcement for a third round of quantitative easing

at its last meeting, investors were anticipating no policy changes at Wednesday's meeting, either. The Fed iterated a statement very similar to the last one. Their assessment is that the economy is growing only "modestly", justifying the current bond buying program. Friday's release of third quarter Gross Domestic Product (GDP), the broadest measure of economic activity, increased at a 2.0% annual rate, slightly above the consensus forecast of 1.7%, and up from 1.3% in the second quarter. Many economists feel that a 2.0% growth rate is generally consistent with a steady labor market, but that a faster pace is necessary to see significant improvement in the level of employment. A primary reason for the loose Fed policy is to help boost economic growth and create new jobs more quickly.

SETTLEMENT FEES 2.0

Closing costs, Lender fees, and Title fees are three topics that I wrote about over 7 years ago. It seemed that an update was called for, hence the 2.0 appellation.

The terms Loan Fees, Closing Costs and Settlement Fees are used indiscriminately by brokers and borrowers alike. The confusion regarding nomenclature stems from there not being an industry standard for the names of the various fees, nor is there a standard practice of charging for all or any of the fees, especially "junk" fees. While underwriting and administration fees are obviously the province of the lender, these may vary with the type of loan one is seeking. Even so, various fees and closing costs are not determined solely by the lender, but also include local state, county and city fees, as well as attorney or title company fees. Pre-paid fees like the interest on the new loan depends on what day of the month your loan closes and escrow accounts (also pre-paid fees) are based on what month of the year you close.

Still in all, there are distinctions to be made. Strictly speaking, closing costs are costs associated with the loan closing whereas settlement fees INCLUDE closing costs, pre-paid interest, escrow reserves for taxes and insurance, and the down payment (if the loan is for a home purchase). Thus, Closing costs INCLUDE Lender Fees, Title Fees and Government Fees (state, county or city recordation) whereas Settlement Fees comprise Closing Costs PLUS Prepaid Costs and Impound/Escrow Accounts.

NON-RECURRING VS. RECURRING FEES

In broker parlance, **closing costs** are usually relegated to **non-recurring costs.** For a refinance, Closing costs (excluding a loan origination fee) are apt to run $3000-3500 which would include the appraisal, title, escrow, courier, recording and lender fees. The latter averages about $1,000 among lenders with a few having fees in the $700-800 range for a conventional loan and these are the fees that most brokers are covering in a "no-costs" loan refinance. **Recurring costs include interest on the old loan** (if it's a refi), **interest on the new loan, taxes, and insurance.** Another reason that brokers do not count these items as closing costs is because a homeowner would be responsible for these costs regardless of whether they refinanced. Real estate agents and escrow officers, however, tend to lump recurring and non-recurring closing costs together.

The important thing to understand about closing costs is that lenders only control lender-related fees. As such, lenders have no control over escrow, title, government or insurance-related fees.

Settlement Fees on the Good Faith Estimate or Fees Worksheet break down into four general categories:

- **Lender Fees:** the costs of getting a mortgage
- **Title Fees:** the charges for establishing and transferring ownership
- **Prepaid Costs:** not fees but charges due at closing
- **Impound/Escrow accounts:** not fees, but money deposited into an account for future taxes and insurance bills.

LENDER FEES

Depending on the lender and loan particulars the following Lender Fees may or may not be charged by various lenders: origination points, discount points, administration, underwriting, document prep, application, appraisal, lender's inspection, credit report, processing, courier, flood certificate, survey, commitment, PMI application, tax service, warehouse and wire transfer.

As a mortgage broker, I have minimal control over the foregoing as they're not being paid to me or my brokerage,

except for the processing and origination fee. Fortunately, one is not going to see all of these fees on one's Good Faith Estimate (GFE) or Settlement Statement, but one can minimally expect to see appraisal, underwriting, processing, title, escrow, and recording fees in the range of $3000-$3500.

Note: The Settlement Statement is also known as a "HUD-1".

LENDER FEES EXPLICATED

Loan Origination Fee or Mortgage Broker Fee:

About 30% of loans are originated through mortgage brokers. Wholesale lenders offer lower costs/rates to mortgage brokers than you can obtain directly, so you are not paying "extra" by going through a mortgage broker. More often you will get a lower interest rate and save time by having a broker shop for you. Many low-rate lenders are wholesale only and do not have retail divisions for the public.

The loan origination fee is measured in "points". One point is equal to one percent of the mortgage loan.

Discount Points: A discount point is a one-time charge by the lender due to loan adjustments regarding ltv, property type, cash out, or credit adjustments like fico scores.

Underwriting Fee: This fee is to insure that the loan meets governmental guidelines, Secondary Market guidelines and insure loan commitment. Most lenders will not lend funds unless they are sure that the loan can be sold in the Secondary market or meets their Portfolio Guidelines. Underwriters verify that your supporting documentation corroborates the information given on your loan application, i.e. that your appraisal is consistent with comparables, or that your liabilities are consistent with your income level, etc.

Administration Fee: is another name for Underwriting Fee. It may include charges for underwriting, document preparation, or both. When an admin fee is charged only an Underwriting or Document Preparation fee should be charged in addition to the Administration Fee. There should be no other fees charged for underwriting or document preparation. If an Administration Fee is charged, you will probably find there is no Underwriting Fee, though, not always.

Document Preparation Fee: Once underwriting has approved your loan, the legal and

miscellaneous documents required at closing must be prepared. These documents include the mortgage note, deed of trust, Truth in Lending forms, and escrow instructions. Before computers made it fairly easy for lenders to draw their own loan documents, they used to hire specialized document preparation firms for this function. This was the fee charged by those companies. Nowadays, lenders draw their own documents. This fee is charged on almost all loans and is usually in the neighborhood of $125-$150.

Application Fee: covers the initial cost of processing your loan request. Application fees are largely charged because of consumer comparison shopping. Costs associated with your loan are incurred from the minute your loan request is started. Charging application fees covers these fees in the event that a comparison shopping buyer does not close the loan with the lender. Often, the application fee is credited towards closing costs if you close the loan with the lender. If you do not close with the lender, the application fee is not refunded.

Appraisal Fee: pays for an independent appraisal of the home you wish to purchase or refinance. The lender requires this opinion or estimate of the market value of the house to ensure that the house is worth the purchase price and to establish a Loan to Value (LTV).

Appraisal Review Fee: Even though you will probably not see this fee on your GFE or Mortgage Loan Disclosure Statement (MLDS) it is charged occasionally. Some lenders routinely review appraisals as a quality control procedure, particularly on higher valued properties or in areas that have seen rapid price appreciation. This fee is in the neighborhood of $150.

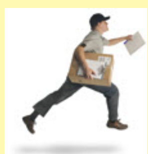
Lender's Inspection Fee: If the appraisal uncovers anything that needs to be repaired or fixed (the roof is the most commonly required repair) or if, during the appraisal, something is currently being repaired or completed (i.e., a pool), then an inspection is usually required by the lender.

Credit Report Fee: Lenders require a credit report. Your credit history is a part of the application documentation. As many as 70% contain errors, although usually minor in nature, occasionally, there are, major discrepancies.

Processing Fee: This fee covers the cost of packaging and gathering the loan information necessary to submit your loan application to the lender. This includes employment and depository information (w-2s, bank statements, verifications, etc.), ordering credit reports, appraisals and surveys (if required) and other necessary documentation (divorce decrees, bankruptcy filing and discharge, etc.); whatever supporting documentation and information is required by the lender's underwriting department to create the true picture that supports your loan application. A broker must submit all this paperwork according to the lender's requirements.

OTHER LENDER FEES

This category can vary from lender to lender and cannot be associated directly with the cost of the loan. These fees cover costs of the lenders and are used to offset the fixed cost of loan origination.



Courier Fee: Lenders use couriers to deliver documents. Some lenders will list this fee individually or include it in the administration fee or processing fee.

Flood Certification Fee: Federal law requires flood insurance if the property is located in a flood zone. Normally, an independent company is used to research the FEMA maps to determine if the home lies in a flood zone. This one-time fee is for the life of the loan, as the FEMA maps are checked annually to determine if your property has moved into or out of a flood zone. If your property is reclassified at any time during the life of the loan, the lender will notify you whether or not you should drop or obtain flood insurance for your property.

Survey Fee: States differ in whether or not they require a survey of the home's property. The survey determines whether the property associated with the home is within property lines and that the property lines have not been crossed by other structures.

Commitment Fee/Lender Rate Lock: Most lenders charge a fee for a rate lock that extends beyond 60 days. Fees are charged against shorter term locks as well e.g., 15, 30 & 45-day locks, as well.

The rule is the longer the lock, the higher the fee. The fees are usually a fraction of a point (1%) and are deducted from the borrower's lenders credit if any.

PMI Application Fee: If your down payment is less than 20% and are not incurring a 2nd mortgage, you will be required to have Private Mortgage Insurance (PMI). When processing your loan, two "loan packets" need to be prepared, one for the lender's underwriter and one for the PMI underwriter. You may be charged a fee for this additional processing. Most buyers/borrowers prefer to have a 2nd mortgage over paying for PMI because with the latter, the costs are not tax-deductible.

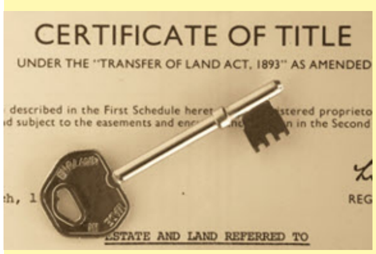
Tax Service Fee: covers the service that a company provides to verify that the property tax payment sent to the assessor's office was credited to the correct parcel. It's immaterial whether you pay the property tax directly or the lender pays it from an escrow account; on the front of every single tax bill from every single assessor's office in the nation is the following statement: Tax Collector Not Responsible if paid on wrong parcel. The only way to know if a clerical error has occurred (short of tax foreclosure) is if there is a service that checked for payment. The one time fee is for the life of the loan.

Warehousing Fee: Some lenders have a warehouse line of credit in order to fund loans at closing time. This is more common in specialty lending.

Wire Transfer Fee: Mortgage lenders generally wire the funds to the escrow company handling the loan closing. Funds are wired through the Federal Reserve System and go through commercial banks that are members of the Federal Reserve Bank. Usually banks charge mortgage lenders a fee for the wire transfer service in the range of $50 to $75.

TITLE FEES AND FUNCTIONS

FUNCTIONS



The purpose of a title company in a real estate transaction is twofold. First, it performs a title search, which verifies that the seller of the property is the legal owner of the property and that there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record which would adversely affect the marketability or value of title. The search is a detailed examination of the historical records concerning property. These records include deeds, court records, property and name indexes, and many other documents. After completing the title search (and if the title company finds that the seller is indeed the legal owner of the property) then a certificate of title is issued.

The secondary function of a title company is to act as a closing or escrow agent. They follow escrow instructions from the lender on how the loan is to be documented and the funds disbursed and accounted for when the closing is completed. For these services, the title company will usually collect the following fees: Title Insurance, Escrow, Notary, and Recording.

FEES

Title Insurance: Even though there is a title search performed to establish the seller's legal right to sell the property, there may be hidden defects or clouds on the title which an examination of the records could not reveal. For instance, the previous owner might have incorrectly stated his marital status, resulting in a possible claim by his legal spouse. Other problems include things like fraud, forgery, defective deeds, mental incompetence, confusion due to similar or identical names, and clerical errors in the records. These defects can arise after the buyer has purchased one's home and jeopardize one's right to ownership. Title insurance protects against any tax liens, unpaid mortgages, or judgments missed in the research of the history of title on the property. If a claim is made against one's property, title insurance will, in accordance with the terms of one's policy, assure the buyer of a legal defense and pay all court costs and related fees. Also, if the claim proves valid, the buyer will be reimbursed for one's actual loss up to the face amount of the policy.

There are two types of title insurance: owner's title insurance and lender's title insurance. The owner's policy protects you, the buyer. The seller usually pays for the owner's title insurance policy. The lender policy protects the lender, or rather, protects the lender's collateral for the mortgage loan and benefits the lender. The buyer pays for the lender's policy.

Title insurance is a one-time charge. It is non-transferable, even for a refinance. In the event of a refinance, lender's title insurance is still required, but usually at a reduced rate. This fee varies with the loan

Escrow Fee/Settlement Fee/ Closing Fee: Regardless of the name of the fee, the fee is charged for the services of the escrow agents, explained above. Normally, the buyer and the seller share this fee, each paying 50% of the total fee. For a refinance, this fee is normally reduced by one-half of the normal charge.

Notary Fee: Before the mortgage deed of trust can be recorded at the court house the signature of the borrowers must be notarized. An individual certified as a Notary Public witnesses the signature of recordable documents as true and correct.

Recording Fee: The Recording Fee is charged for recording the deed and mortgage at the local court house. Usually the fee is based on the number of pages recorded. The deed of trust is typically five pages and the mortgage loan is typically two pages. The number of pages recorded will vary due to the number of riders along with the deed of trust and the mortgage loan note. "Rider" is a contractual term which refers to a legal document which in and of itself carries little meaning, but must be coupled with other documents to have meaning; hence, the name, rider, as the document

must "ride" with another document to have meaning. Typical riders include the Planned Unit Development rider, which explains the CC&R's associated with the purchased property; the Adjustable Rate rider, which details the adjustments to the interest rate for an adjustable rate mortgage; or an environmental Endorsement rider stipulates that the owner of the property is responsible for damage to the environment that occurs from activities on the property while owned by the individual(s).

ESCROW/IMPOUND ACCOUNT DESCRIPTIONS

Homeowner's Insurance Impound: If one's down payment is less than 20%, the buyer will be required to put 2 month's worth of the annual homeowner's insurance premium into an escrow account, otherwise the buyer will place 1 month into the account. The monthly mortgage payment will include 1/12 of the annual premium in the payment, which is kept in the escrow account until the annual premium is due. If one's down payment is less than 20%, the buyer will have a two-month "cushion" in the escrow account. Cushions are allowable but limited under RESPA (Real Estate Settlement Procedures Act)); in other words, RESPA accepts the practice of the lender wanting to cushion the escrow account, but limits the amount of the cushion to a reasonable amount.

PMI Impound: Private Mortgage Insurance (PMI) protects the lender in the event that the borrower defaults on the mortgage loan. It is usually required if the borrower's down payment is less than 20%. The borrower has to deposit 1-month's worth of PMI premiums into the escrow account, depending on the lender.

Property Tax Impounds depend on the following three factors:

- In which state the property's located and when the taxes are due
- Whether the property taxes are paid in arrears or in advance
- The month in which the transaction closes

In California, property taxes are paid semi-annually, with one payment in arrears and one in advance. A borrower's monthly mortgage payment includes 1/6 of one's semi-annual property tax. Therefore, the borrower needs to deposit the number of month's worth of property taxes into the escrow account that will yield 6 months worth of property taxes in the account at the time that property taxes are due.

ECONOMISTS: THE HOUSING RECOVERY IS FINALLY HERE

It's been a long time coming, but economists   believe the nation's housing market has finally turned the corner. Economists have been encouraged by a variety of readings, including three straight months of increases in the S&P/Case-Shiller home price index, a pick-up in sales of existing homes and home construction and a big jump in the price of new home sales. Another encouraging development is that mortgage rates are also likely to remain near record lows thanks to the Federal Reserve's purchase of $40 billion in mortgages a month for the foreseeable future.

Determining when the housing market has turned the corner is important for more than home builders and real estate agents. Even before soaring foreclosures sparked a meltdown in financial markets in 2008, the housing market had become a significant drag on the economy. Housing continued to subtract from the nation's gross domestic product right up through early 2011.

But starting in the fourth quarter of last year, housing has been adding to growth. Housing is now bucking the trend in what is otherwise a sluggish U.S. economy. Still, economists don't believe housing is ready to be a major driver of economic growth, as it was during the housing boom and some earlier economic recoveries, but housing could keep the economy moving in the right direction. Economists said they believe there's been some fundamental change of thinking in the market place. Buyers who had postponed housing purchases while prices slid are finally more comfortable making the plunge.

RATE SUMMARY

Rates worsened slightly, this month

*Conforming loans—up an 1/8th

*Jumbos—no change

*Governments—: FHAs & VAs fell an 1/8th while other "governments" rose by an 1/8th

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.

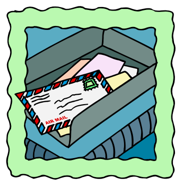
SPECIAL(S) OF

THE MONTH

- Conforming 15 yr. fixed @ 2.500%
- Conforming 30 yr. fixed @ 3.125%
- FHA/VA Conforming 30 yr. fixed @ 2.75%
- FHA Conforming 15 yr. fixed @ 2.500%, VA Conf. 15 yr. fixed @ 2.250%
- Jumbo 30 yr. fixed @ 3.625%

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

NEXT ISSUES TOPIC:

REALTOR ALL-STARS

MORTGAGE MIRTH

A fine is a tax for doing wrong.

A tax is a fine for doing well.