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THE MONTH IN REVIEW

4/2-4/6 Personal spending increased 0.8% in February, topping analyst predictions of a 0.6% jump. **Meanwhile, personal income grew by 0.2%,** less than the 0.3% predicted rate. **The March installment of the Institute for Supply Management Manufacturing Index came in above expectations at 53.4, up from 52.4 in the month prior.** Fifty is the dividing line between expansion and contraction. **The Dow dropped 126 points after the minutes of last month's Federal Reserve meeting were released** because they suggested that the Fed was leaning away from further stimulus. **Investors flocked toward the safety of U.S. government debt Friday following a dismal jobs report that showed a sharp slowdown in hiring in March.**

4/9-4/13 Tuesday marked the fifth straight losing day for stocks as **investors grew increasingly worried about Europe's fiscal health with the Dow closing down 213 points.** The Labor Department reported that **initial jobless claims rose unexpectedly to 380,000 in the latest week,** up from a revised reading of 367,000, which was also revised higher. U.S. stocks moved higher for a second straight day, Thursday, with **the Dow closing up 179-points** as investors welcomed declining yields on Spanish and Italian bonds. **U.S. stocks stumbled Friday,** following a two-day rally, closing lower for a second straight week with the worst declines of the year.

4/16-4/20 NEW home construction in March fell 5.8% to an annualized rate of 654,000 compared with February. **Housing starts were up year over year, however, by 10.3%. Housing permits, a more forward looking market indicator, grew 4.5% in March to a 747,000 annual rate, compared with a month earlier. They were up 30.1% year over year. U.S. stocks rose 194 points, Tuesday,** as worries about Europe eased, with the Dow posting it's best one-day gains since March 13. **U.S. stocks pulled back Wednesday**, as worries about

Europe's economy resurfaced. **First-time unemployment claims declined** but were still higher than what analysts expected. March's **EXISTING home sales dipped 2.6%** compared to a month earlier, a sign that the housing recovery remains on shaky ground.

4/23-4/27 The Dow fell 102 points as Europe's debt crisis, once again resurfaced amid political turmoil. NEW home sales dropped 7.1% in March as the S&P/Case-Shiller recorded another decline in home prices for February. The number of people filing for **first-time unemployment benefits dipped 1,000 to 388,000 in the most recent week,** according to the Labor Department's weekly initial claims report. **U.S. stocks rose 114 points, Thursday, as hopes for more stimulus from the Federal Reserve overshadowed concerns about the job market and mixed corporate earnings.**

4/30 Spain's economy declined for the second straight quarter, putting it technically in a recession. The report came just days after Standard and Poor's downgraded Spain's credit rating to BBB+ and **its unemployment rate hit a record high of 24.4%.**

PORTFOLIO LOANS

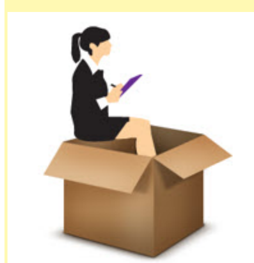
People shopping for a home and a mortgage may have heard the term "Portfolio Lender," and wondered at its meaning. In some cases, a borrower who does not qualify for a conventional loan program via Fannie Mae or Freddie Mac is told to seek out a portfolio loan from a portfolio lender.

A portfolio loan is one that is retained for a lender's own investment portfolio (mortgage inventory) rather than one being sold on the secondary market. This is usually due to the fact that the loan does not conform to traditional underwriting guidelines such as those issued by Freddie Mac or Fannie Mae.

LENDERS

Portfolio lenders, loosely defined, are those who make mortgage loans without the express intention of selling them—either immediately or at some time during the term. Banks, credit unions and savings & loans are the most common portfolio lenders in the mortgage industry, but the line between who and what constitutes a portfolio lender is often blurred because most also operate as mortgage bankers and sometimes brokers. Then too, there are lenders that will keep a portion of their loans as portfolio loans and sell the rest to recoup money to continue to lend. The percentage of the loans they keep depends on the investor involved and how much funding they have. There are also some lenders that are not considered traditional portfolio lenders, but do have some programs that are portfolio only programs. Those who lend money from their own portfolios and hold on to the mortgage are relatively few in number, these days.

GUIDELINES



Simply put, when lenders hold and service their own loans, they have the ability to work "outside the box" and approve exceptions that typical lenders would not. Though most portfolio lenders tend to follow Fannie Mae and Freddie Mac guidelines they are free to grant exceptions to the norm. For this reason they have often been called the lenders of "second resort".

The term "portfolio" doesn't mean anything inferior. Nor is it where the "credit challenged" go to get a home loan. But, because they have more leeway than larger, stockholder-driven institutions, they can make lending decisions based on the intangibles as well as the tangibles of a transaction. This flexibility can often mean that a portfolio lending underwriter can be more liberal when evaluating things such as past credit problems, prior bankruptcies, lack of cash reserves, etc. Therefore, it is often easier to qualify for a portfolio loan than for a loan which is being sold to a secondary investor.

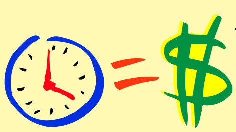
At the same time, borne out by their plan to hang on to the loan for the long term, some portfolio lenders can be more restrictive in other regards like the types of properties they lend on (owner occupied as opposed to investment), loan to value (LTV) ratios, appraisals and review, since, in the event they have to foreclose, they need to make sure that the property will resell, quickly, and for at least what they lent on the property. Consequently, portfolio lenders cannot be reckless in granting loans or they would not be in business very long.

COSTS

In all matters economic, there is a risk/reward ratio—the higher the risk, the higher reward. Portfolio loans typically have higher rates for three primary reasons: 1) the underwriting terms are often more liberal 2) because portfolio loans are not marketable to Wall St. via the secondary market they are intrinsically riskier propositions and 3) term risk, since lenders have to hold them in their portfolio for the entire loan term.

When Portfolio Lending Makes Sense

Anytime one's proposed loan or financial situation doesn't qualify for conventional underwriting is the time to consider a portfolio product. What follows are a few examples of when portfolio lending makes sense:



TIMING. Let's say that a 4 unit investment property comes on the market both at the right time and at the wrong time. At the right time, because the price is well below market, but at the wrong time because you can't come up with the money fast enough for the down payment. If you went to a conventional lender, the down payment requirement could be as high as 25% of the purchase price. And you may not exactly have that kind of money on hand.

DEBT RATIOS. Perhaps, you want to build not just one, but two houses at the same time: One for you, and one for a rental. But your ratios won't let you do both, and without loan approval for the permanent mortgage you also find you can't get construction funds. Again, check into portfolio products.

FINANCIAL SETBACKS. One more example might be someone whose credit rating suffered while out of work for an extended period, but who is back on track. Or, a savings & loan might be more concerned with an individual's savings history than being able to fully document their income.

HISTORY. In the past, portfolio loans were issued by banks or thrifts that were more than happy to make loans that just did not quite "fit" the conventional mold yet made good sense from a financial perspective. If one already had a relationship with that bank, the bank was more inclined to evaluate a loan based upon things other than down payment and debt ratios.

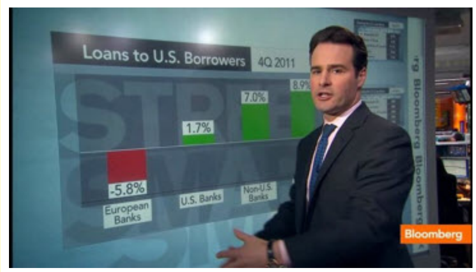
NICHES. Portfolio lenders also have "niche" products. Some offer excellent jumbo loan rates, non-income verification loans, loan programs for foreign nationals, and loans not based solely on a FICO score, although the borrowers use of other credit and past credit history is a determining factor in any loan program.

<u>MORAL GOOD</u>. They can and will go somewhat beyond the guidelines for a good reason. One example is making loans to low-income buyers to help them achieve home ownership. This action is a decision that is good for the community as well as for the homebuyer.

Aside from cost and underwriting guidelines, the only other major difference with a portfolio loan is the borrower does not have to change where he sends his payment because his loan will not be sold multiple times over the life of the loan. Even so, in today's modern world one can pay one's bill online even if the mortgage is sold to a loan servicer.

THE SECONDARY MARKET vs.
PORTFOLIO LENDING—EXPLICATED

To more completely understand the portfolio lending concept and its implications for consumers, it is helpful to understand how the Secondary Market functions. One might ask: How can a bank sell a mortgage? Why would a bank make a mortgage loan, only to sell it? Who would buy mortgages, and why?



Investors who buy the mortgages originated by others make up what is known as the secondary mortgage market. For residential mortgages, the largest investors in mortgages are two quasi-governmental institutions: the Federal National Mortgage Association (popularly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (popularly known as Freddie Mac).

These organizations buy large numbers of loans from banks and other mortgage originators and then re-package the loans in groups of similar type loans to be sold again as what are known as mortgage backed securities. These securities are traded like stocks and bonds.

Because they buy so many mortgage loans from original lenders, and because they desire to limit risk for buyers of their mortgage-backed securities, Fannie Mae and Freddie Mac have developed market standard guidelines for the loans they will be willing to buy. The guidelines include such particulars as the percentage of total income that is allowable for a borrower to spend on mortgage payments and total debt service, maximum loan amounts, down payment sources, and other particulars. Lenders that wish to sell mortgages to Fannie Mae and Freddie Mac must make loans that conform to these strictly enforced underwriting guidelines.

Mortgages are considered business investments. In mortgages, as in other investments, there are anticipated returns on investment (the interest paid over the life of the loan) and degrees of risk (the possibility that the interest and/or the principal will not be repaid). Like other investments, mortgages-with their potential risks and rewards-can be sold by one investor to another. To offer an investor an adequate return on a mortgage that was made at market interest rates, the mortgage originator may have to sell the loan at a discount. For true portfolio lenders, mortgages are also investments in customers and in the communities served, allowing for growth and helping to maintain a healthy social and business environment.

As we have seen, banks and other mortgage lending institutions comprise the investment base. They allocate a percentage of their total assets to mortgage loans based on what is prudent to maintain a balanced portfolio. If, at a given time, they feel they have too great a percentage of assets invested in mortgage loans, they may decide to sell some of the loans to other investors. This is a way to hedge risk and to increase liquidity.

Many institutions use the funds received from selling mortgage loans to make further mortgage loans. This can be beneficial to a community that needs a larger pool of mortgage funds at a particular time than it can generate from bank deposits or other sources.

On the other hand, a lender may want to increase its overall percentage of assets allocated to mortgages and then hold them in its investment portfolio in order to realize the full value of the investment. Some portfolio lenders hold mortgages because it is important to build a solid, long-term relationship with borrowers through the process of servicing the mortgage over the years.

Mortgage lending has two parts: loan origination and loan servicing. Origination involves all of the steps from application through making the loan. Servicing involves accepting and allocating mortgage payments and handling any correspondence or problems that may arise over the life of the loan.

It is important for borrowers to know a bank's intentions with respect to the disposition of its mortgages because their involvement with the lender does not end when they close on a loan. Therefore, within three days of taking an application for a mortgage, the lender is required by federal law to give the applicant a servicing disclosure that reveals its track record of selling mortgages it originates, including a three-year history, and whether its intention for the mortgage in application is to be sold, or to be held in its portfolio.

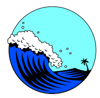
When a lender sells a mortgage, it can sell the mortgage and the servicing, in which case the consumer would be notified to make mortgage payments to the new owner of the mortgage. However, if a lender sells the mortgage, but retains the servicing, the consumer may never know the loan has been sold—until a problem arises.

Take the example of a borrower who is downsized out of a job. He or she might call the banker who handled their mortgage loan and has been receiving their on-time payments ever since to request some short term relief, like paying interest only for awhile. Imagine how unpleasant when the borrower learns the mortgage has been sold and such a decision will be made not by the friendly banker who knows them but by some unknown investor. It is unlikely that the borrower would get the temporary relief requested and could end up in foreclosure.

Lenders make money making loans. If they don't make loans, they won' be lenders very long. But now, there are lenders who can offer a variety of loan programs that fit their own specific lending requirements, not just banks and thrifts.

TIPS REGARDING PORTFOLIO LOANS

Using a broker is a definite advantage because they can look at portfolio loans and non portfolio loans to find you the best deal along with the product you are looking for. If you apply for a loan with a particular lender and you are declined, that's it! You're toast! If you wish to pursue a loan you get to start all over from square one. With a broker they can save you time and energy by simply submitting your file to another lender.

FORECLOSURES ABOUT TO  INUNDATE THE HOUSING MARKET

The golden age for foreclosure squatters may soon be coming to an end now that the $26 billion mortgage settlement has been approved. The settlement, agreed to by the nation's five largest mortgage lenders, is expected to speed up the foreclosure process by providing stricter guidelines for the banks to follow when repossessing homes. The banks involved include Bank of America, JPMorgan Chase, Citibank, Wells Fargo, and Ally Financial.

Many foreclosures have been in limbo since fall 2010 following the so-called robo-signing scandal, when banks allowed employees to falsely attest to the veracity of thousands of foreclosure documents each month with their forged endorsements. Fearing further unwanted scrutiny from the attention of many states' attorney generals, lenders put a moratorium on foreclosures. As a result, borrowers who were seriously delinquent on their loans have been able to stay in their homes for months or even years without making a single payment. Nationwide, the average time it takes to foreclose on a home—from the first missed payment to the final bank repossession—stretched to 370 days during the first quarter, almost twice as long as it took five years ago, according to Daren Blomquist, the marketing director at RealtyTrac. In some states, delinquent borrowers have been squatting in their homes much longer. In Florida, the average time was 861 days, and in New York it was 1,056 days—close to three years.

"Perhaps a million foreclosures could have been pursued last year but weren't," said Rick Sharga, executive vice president for real estate investment company, Carrington Holdings. But that's all about to change, he said. "We're going to see an increase in the speed of foreclosures and a higher number of foreclosure starts." In fact, there are indications that the pace of foreclosures are already starting to pick up. While overall foreclosure activity was down during the first quarter, filings were up 10% in the 26 states where foreclosures must undergo court scrutiny, according to RealtyTrac. It was in these judicial states that the processing of foreclosures slowed the most following news of the robo-signing scandal, said Blomquist.

Many banks in these states stopped filing foreclosures unless they were extremely confident it would pass muster in the court. (In non-judicial states, foreclosures are reviewed by a trustee, or third party, such as a title company and less likely to parse every legal document). But now lenders can move more confidently, said Brandon Moore, RealtyTrac's CEO. In the judicial state of Indiana, for example, foreclosure filings were up 45% year-over year. And in Florida, they were up by almost 26%, according to RealtyTrac.

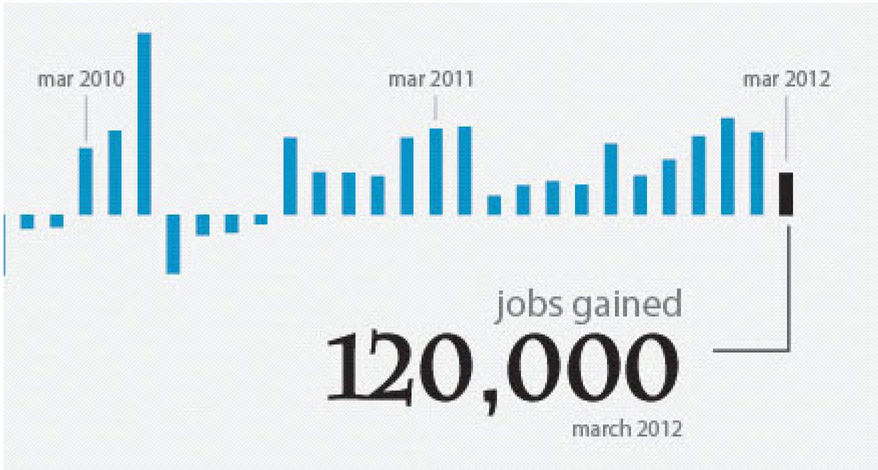
"The dam may not burst in the next 30 to 45 days, but it will eventually burst, and everyone downstream should be prepared for that to happen—both in terms of new foreclosure activity and new short sale activity," Moore said in a statement. The resulting flood could bring home prices down even further—yet another impetus for the banks to clear out their foreclosure pipeline as quickly as possible, said Kansas State's Eric Higgins.

Then, industry thinking is, the housing market would be able to get back to normal and home prices could eventually find their true value. Some industry analysts, such as the chief economist for listing site Zillow, Stan Humphries, are predicting that could happen as soon as the end of the year. Zillow estimates that home values nationwide will fall another 3.7% by the end of 2012, and that price will likely bottom out by early 2013. Should home prices hit a bottom then stabilize, it would push many potential buyers off the fence, according to Mike Fratantoni, a vice president at the Mortgage Bankers Association. House hunters would no longer be afraid of investing in assets that were losing money. "The market is already on the verge of turning the corner on prices and this will help," said Fratantoni.

MARCH JOBS REPORT: HIRING SLOWS, UNEMPLOYMENT FALLS

Hiring slowed dramatically in March, clouding optimism about the strength of the recovery. Employers added 120,000 jobs in the month, the Labor Department reported, falling far short of economists' expectations. The number marked a significant slowdown in hiring from February, when the economy added 240,000 jobs.

Meanwhile, the unemployment rate fell to 8.2% as the labor force shrank by 164,000 workers, mostly due to women leaving the job market. Economists attributed part of the hiring slowdown to an unseasonably warm winter that boosted job growth in January and February. (The Labor Department adjusts its data to account for seasonal trends, and the warm weather may have distorted those calculations). But still, seasonal adjustments didn't explain all of the slowdown.



American Employers Hired 120,000 Workers in March- Half of the Job Gains Seen in March

The hardest hit industry was retail, which lost 33,800 jobs, mostly at department stores. On the positive side, manufacturers created 37,000 jobs, professional services created 31,000 jobs, and health care added 26,000 jobs. Restaurants and bars were also a large job creator, hiring 36,900 people.

Public sector job losses continued to slow. The government has been bleeding jobs since the middle of 2010, but recently those layoffs have started to wind down. The government cut just 1,000 jobs in March, while private businesses—which have steadily been hiring for two years straight—added 121,000 jobs.

Overall, the job market is still not out of the deep hole left by the financial crisis. Of the 8.8 million jobs lost, about 3.6 million have been added back. About 12.7 million Americans remain unemployed, and 42.5% of them have been so for six months or more.

Meanwhile, the so-called underemployment rate fell to 14.5%, its lowest level in three years. This figure includes people, who are unemployed, as well as those who are working part-time because they can't find full time jobs, and those that have looked for a job sometime in the last year.

RATE SUMMARY

RATES IMPROVED SLIGHTLY THIS MONTH

- CONFORMINGS–WERE AN 1/8TH CHEAPER

- JUMBOS –1/4th LOWER

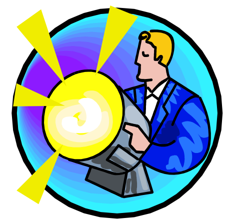
- GOVERNMENTS –BETTER BY AN EIGHTH TO A QUARTER PERCENT

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 30 yr. fixed @ 3.500%**
- **Conforming 5/1 ARM @ 2.375% & Conforming 5/1 Interest Only @ 2.375%**
- **High Balance Conforming 15 yr fixed @ 3.000%**
- **Jumbo 5/1 ARM @ 2.500%**
- **FHA Conforming 30 yr. fixed @ 3.250%**
- **VA High Balance 30 yr. fixed @ 3.500%**
- **Conf. 30 yr. fixed Refi Plus @ 3.500%**



MORTY'S MAILBAG

Q. We are moving to Las Vegas and we asked our realtor to refer us to a sales agent in the area. She obliged us and when we asked how we might reward her she told us that it was unnecessary since she would receive a referral fee from the other real estate agent. My question: do you do loans there? If not, could you refer us to someone that does?

A. Unfortunately, the short answer is no because I am not licensed to do loans in Nevada. Our firm is licensed in California, Arizona and Utah.

But, this brings me to mind a recent situation in which a real estate agent wanted to refer a client to me with the expectation of a referral fee. I had to explain to her that mortgage brokers are expressly prohibited from paying a referral fee of any kind to another person holding a real estate license. **Section 8 of the Real Estate Settlement Practices Act (RESPA)** "prohibits a person from giving or accepting anything of value for referrals of settlement service business related to a federally related mortgage loan." In addition, RESPA prohibits fee splitting and receiving unearned fees for services not actually performed.

As such, RESPA violations are subject to criminal and civil penalties. In a criminal case, a person who violates **Section 8 may be fined up to $10,000 and imprisoned up to one year.** In a private law suit, a person who violates Section 8 may be liable to the person charged for the settlement service **an amount equal to three times the amount of the charge paid for the service**.

Real estate agents often misinterpret this law because real estate agents ARE ALLOWED to pay and receive referral fees BUT not from other real estate sales agents. THE REFERRAL FEE MUST BE PAID THROUGH THE REAL ESTATE SALESPERSON'S AGENCY OR BROKER. What the real estate agent was suggesting doing also violates **Section 10137 of the California Business and Professions Code** which states that: "It is unlawful for any licensed real estate broker to employ or compensate, directly or indirectly, any person for performing any of the acts within the scope of this chapter who is not a licensed real estate broker, or a real estate salesperson licensed under the broker employing or compensating him or her, or to employ or compensate, directly or indirectly, any licensee for engaging in any activity for which a mortgage loan originator license endorsement is required, if that licensee does not hold a mortgage loan originator license endorsement; provided, however, that a licensed real estate broker may pay a commission to a broker of another state."

In plain English, what this means is that it is illegal to receive or pay monies from an entity other than the broker or agency that employs the real estate sales agent. The broker or agency pays or accepts the referral fee which is then pays some portion of the referral fee to the real estate agent. A real estate agent cannot pay or receive monies from another real estate agent. It must be paid to the broker or agency.

Mortgage brokers, however, ARE NOT ALLOWED to do this because it was feared it would be deemed an ordinary cost of doing business and the broker would thereby increase his loan fee to recoup the referral fee that the mortgage broker was paying to the real estate agent. In fact, I can't even buy a realtor lunch without being in violation of the Real Estate Settlement Procedures Act (RESPA). The reason for this is because **it constitutes an undisclosed profit to the real estate agent** and were I to pay for referrals there would no longer exist "a level playing field". Again, to illustrate, were I to pay a referral fee of let's say $1000 to some real estate agent then in order to continue to make the same origination fee or commission, the thinking is that I will simply charge the borrower an extra $1000 to recoup what I paid to out which harms my client, the borrower. How is my borrower harmed? My client is harmed because he is not getting the same deal that he would have gotten if I hadn't paid a kick back or referral fee. By paying a referral fee, I have tilted business in my favor so as to receive additional referrals in the future which I would, then, in turn, charge those clients more for so as to pass on the cost of the referral fee that I paid out. The logical extension of this is that the mortgage brokers would bid up the price of referral payments to obtain more business, but at the expense of the borrowers.

This law, however, is frequently violated by paying agents "under the table" in cash. Aside from the illegality of it, the problem with this is that as people have often discovered that if a person will lie for you, they will also lie to you. And many of us in the past have had to learn a very painful lesson in that we think we know someone so well that we think they might do it to others but they would never do that to us because they hold us in higher regard only to later learn that we were sadly mistaken.

Where loan originators have been tripped up in the past is that they have often sought to deduct these payments on their taxes as legitimate business expenses. They felt this was justified because they were paying tax on income that was passed tax-free to the real estate sales agent. The IRS views this is as tax evasion, not tax avoidance.

When a mortgage broker or loan originator pays these fees out, they are, in effect, discounting their services by the amount of the referral fee. The brokers most apt to do this would be those that were lazy, unscrupulous or not good enough to command an honest fee in the first place. Since most brokers don't want to work for substantially less, the natural inclination is to mark up their fees to offset what they are paying out for the referral fee.

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

MORTGAGE MIRTH

Nothing is foolproof to a sufficiently talented fool.

NEXT ISSUES TOPIC:

MORTGAGE INSURANCE - BORROWER PAID, LENDER PAID, HYBRID, SINGLE PREMIUM, etc