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MORTGAGE NOTESTM

FOR HOMEOWNERS, HOME BUYERS & REAL ESTATE PROFESSIONALS

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Fixed-rate overwhelming loan of choice in today's market

Homeowners took advantage of low rates to shed their adjustable-rate mortgages (ARMs) in the second quarter of 2008, according to a report released by Freddie Mac in August. Ninety-seven percent of prime borrowers who originally had a 1-year conforming adjustable-rate mortgage chose a new conforming fixed-rate mortgage when they refinanced and 87 percent of prime borrowers who initially had a conforming hybrid ARM refinanced into a conforming fixed-rate loan as well. The revised comparable numbers in the first quarter were 92 percent and 80 percent, respectively. Furthermore, nearly all borrowers who had a fixed-rate loan refinanced into another long-term fixed-rate loan.

Refinancing Borrowers Shy Away from Short-Term ARMs and Balloon Mortgages

"Even though refinancing borrowers who take out a 1-year adjustable rate mortgage (ARM) today would save

Mortgage rates are near historic lows but may rise. Call to see if now is the time to refinance your home

Improving economy eases mortgage rates

As inflation concerns subsided mortgages rates eased downward in July, further improving housing affordability for buyers, according to Freddie Mac. "Mortgage rates moved lower as a drop in commodity prices eased market concerns over inflation pressures," said Freddie Mac Chief Economist Frank Nothaft. "For instance, the Department of Energy reported that gasoline prices were the lowest since the end of May, and oil prices were at levels not seen since early May. The 30-year fixed-rate mortgage averaged 6.52 percent at the close of July, down from 6.68 percent during the same period last year.

about three-quarters of a percentage point in rate relative to a 5-year ARM or 15-year fixed-rate mortgage (FRM), the concerns about inflationary pressures leading to future interest rate increases may be causing borrowers to choose the safety and certainty of fixed rates," said Frank Nothaft, vice president and chief economist for Freddie Mac. "In the second quarter, mortgage rates on all products crept up a bit, with 15-year fixed mortgage rates averaging 5.7 percent, the same as for a 5-1 hybrid ARM loan.

"Teaser rates on ARMs have largely disappeared. During the second quarter, the initial interest rate on 1-year ARMs averaged three-tenths of a percentage point higher than the fully indexed rate. Without an extra discount ARMs just aren't attracting many borrowers in today's market."

The Refinance Product Transition Report indicates that only 1 percent of borrowers who originally had a fixed-rate loan switched to an ARM loan. About one-half of borrowers with a 15-year fixed-rate loan refinanced back into the same product, with the other one-half choosing longer-term fixed-rate loans. Among borrowers who originally had a 30-year fixed-rate, three-of-four chose the same product at refinance, and the other quarter chose shorter-term fixed-rate loans.

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Housing recovery act will put real estate market on "solid footing", experts say

The Housing and Economic Recovery Act of 2008 signed by President Bush in late July promises to "put U.S. housing and mortgage finance on solid footing", said Freddie Mac President Daniel Mudd. "The Act will provide crucial support for the housing market and help prevent foreclosures for working families. It also establishes a series of landmark reforms that will put U.S. housing and mortgage finance on solid footing for the long term. Chief among these is the establishment of a new regulatory framework for the federally chartered housing enterprises that are at the center of the mortgage market," Mudd said.

Following is a summary of key reforms in the Act that affect homeowners and homebuyers, according to the National Association of Realtors:

- Conforming loan limits up to the greater of \$417,000 or 115% local area median home price, capped at \$625,500.
- Homebuyer Tax Credit: A \$7500 tax credit that would be available

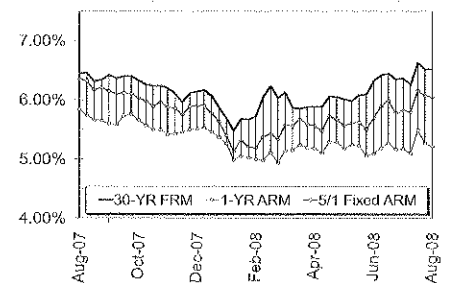
for any qualified purchase between April 8, 2008 and June 30, 2009. The credit is repayable over 15 years—making it, in effect, an interest free loan.

- A foreclosure rescue program for homebuyers with problematic subprime loans.
- A Mortgage Revenue Bond Authority that authorizes \$10 billion in mortgage revenue bonds for refinancing subprime mortgages
- Neighborhood revitalization funds for communities to purchase foreclosed homes.
- A more strict licensing and registration system for mortgage originator licensing to prevent fraud and require minimum licensing and education requirements.

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52-Week Mortgage Rate Performance



Current ARM Indices

08/15/2008	TERM	RATE
1-YR Treasury Sec.	JUL	2.28%
11th Dist COFI	JUN	2.83%
1-MO LIBOR	JUL	2.46%
Prime	4/30/08	5.00%

Sources: FHLMC, Federal Reserve Bank, HSH, bd

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