



Ann Arbor Mortgage

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Volatility is the Name of the Game

The Fed's recent announcement that it was transferring \$400 billion of short-term holdings to US Bonds caused some short-lived euphoria. Mortgage backed securities rose briefly causing rates to drop a bit and since then they have returned to where they were prior to the announcement.

Weak economic news here in the U.S. and continuing uncertainty abroad contribute to the volatility.

The Federal Reserve will begin Operation Twist this week, as the Fed purchases long-term treasuries in an effort to keep interest rates near record lows.

There really is not much more that rates can drop with 30-year rates in the low 4's and 15-year rates in the low to mid 3's. There was talk of the FNMA 30-year coupon falling to 3% but that talk lasted no more than a day or two. With many people needing a cut of mortgage lending there are very small margins left from which to pare down rates much lower than they already are. Borrowers need to grab these wonderful rates while they can. If inflationary pressures rise, mortgage rates will rise and rates always rise faster than they fall.

On a related note...

The yield on the 10-year Treasury note was 2.57% on 8/05/11, the day that S&P announced a **downgrade of the USA** from AAA to AA+. Now **8 weeks later**, the yield on the 10-year Treasury note closed last Friday (9/30/11) at 1.92% as funds around the world **continue to buy US debt**. (Source: Treasury Department)

The Case for Larger Down Payments

Federal regulators want higher down payments for fewer defaults. Simply put, raising down payments decreases risk.

The Center for Responsible Lending has determined the following (based on delinquency rates on qualified loans from 2002-2008):

- With a 3% - 5% down payment 16% are delinquent
- With a 5% - 10% down payment 9% are delinquent
- With a 20% - 25% down payment 5% are delinquent

Credit Corner

Lenders studied the relationship between credit scores and mortgage delinquencies. There was a definite relationship. Almost half of those borrowers with FICO scores below 550 became ninety days delinquent at least once during their mortgage. On the other hand, only two out of every 10,000 borrowers with FICO scores above 800 became delinquent.

So lenders began to take a closer look at FICO scores and this is what they discovered. The chart below shows the likelihood of a ninety day delinquency for specific FICO scores. The median FICO score in the U.S. is 723. The range is from 300 to 850.

FICO Score	Odds of a Delinquent Account
595	2.25 to 1
615	9 to 1
630	18 to 1
645	36 to 1
660	72 to 1
680	144 to 1
700	288 to 1
780	576 to 1

The White House and Wall Street

The presidential election will be held next year on 11/06/12. In the last 21 presidential elections (dating back to 1928), Democrat candidates have won 11 times and Republican candidates have won 10 times.

Republican victories have occurred in election years where the S&P 500 has gained +14.8% (total return) on average, while Democrat wins have taken place in years where the S&P 500 has gained +4.9% on average. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the US stock market. (Source: BTN Research)

Lower VA Funding Fee Changes Save Money for Veterans

Effective for loans closed on or after October 1, 2011 the funding fee charged on first-time VA loans with less than 5% down drops by .75% to 1.40%. For those Veterans refinancing or using their entitlement again, their fee will drop by .5% to 2.8%.

The Case for USDA Rural Development Mortgages

Rural Development (RD) loans are one of the best bargains available. They allow zero down financing with inexpensive monthly mortgage insurance. Because they focus on rural areas, in Washtenaw County, generally speaking, most areas west, south, and north of the perimeter ring of expressways are eligible. East of US-23 is not an eligible area due to its suburban nature. Closing costs may be financed when there is equity above the contract price as supported by the appraisal. Sellers may contribute 6% of the purchase price toward purchaser closing costs. RD loans are also assumable which may prove to be a valuable selling tool. The two caveats are that there are maximum income limits and that the loans are address-specific.

Have a mortgage or finance question?

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