

# the Mortgage Commentary

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Diversified Capital Funding  
30 Whitney Street  
Los Altos, CA 94022  
Phone: 650-917-6688x215 or 210  
gremberg@divcap.net  
phensley@divcap.net  
www.georgepattyteam.com



George Remsberg  
NMLS273263DRE00367060



Patty Hensley  
NMLS273265DRE01137700



**"Pro and con are opposites, that fact is clearly seen.  
If progress means to move forward, then what does congress mean?"  
---Nipsey Russel**

## The Fed moves in mysterious ways

The November Mortgage Commentary reported on the Federal Reserve's commitment to "Quantitative Easing" (QE2), which essentially involves the Fed's purchase of \$600 billion in long term bonds as a means of keeping long term rates low.

The hope was that QE2 would have its desired impact on mortgage rates in spite of concerns that it would also create future inflation.

Well, so far it has not kept mortgage rates low. In fact, rates have climbed since November by .5% to .75%.

It cannot be said that QE2 caused rates to rise, but it can be said that it has not kept them at previous historically low levels.

It is somewhat puzzling, therefore that the Fed seems intent to go full speed ahead as noted in the statement following the Federal Open Market Committee's January 26th meeting. Here's part of that statement.

" — the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and intends to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011."

One might question the wisdom of continuing a plan that is not working, particularly since nearly everyone agrees that the flood of money injected into the economy by QE2 will ultimately lead to inflation and higher mortgage rates.

Everyone agrees with the notable exception of Fed Chair Ben Bernanke, that is.

There was really nothing new in the January 26th FOMC statement. Here's another excerpt:

"The Committee will maintain the target

range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

Pay particular attention to the phrase "an extended period".

This phrase has consistently appeared in post FOMC statements for well over a year and it's like the canary in the coal mine. When it disappears, the Fed will quite likely reverse it's "easy money" policy and start hiking rates.

So, there you have it. The Fed is on cruise control and unlikely to change course until ample evidence of an improving economy emerges. It will continue with QE2 and it will keep the federal funds rate at between 0 and 1/4 percent.

What does all of this mean for mortgage rates and the economy?

Most observers expect the economy to creep upward (partially in response to QE2 and a low federal funds rate) and along with this upward movement in the economy, mortgage rates will quite likely move up as well.

We have probably seen the last of the "ridiculously low" mortgage rates, but we have not seen the last of exceptionally good mortgage rates from a historical perspective.

Although they are higher than they were in late summer and early fall of 2010, they still great. Rates are about dead level with where they were a year ago, for the most part.

If you missed ridiculously low rates don't despair. Don't delay a refinance or purchase hoping for those rates to return.

Carpe Diem. Seize the day.

How to describe last year's story With one word. Regulatory!!

More about credit scores

Lenders continue to ratchet up reliance on FICO scores when pricing loans. Here are some examples, using one lender's pricing matrix, and recent rates. Use a loan of \$729,750, which is 80% of value.

FICO score of 740 or higher FICO for a 30 year fixed - rate is 5% -- monthly payment -- \$3,917.46.

FICO score of 739 - 5% rate costs .25 points (\$1,824.38).

FICO score of 719 - 5% rate costs .75 points (\$5,473.13).

FICO score of 699 - 5% rate costs 1.5 points \$10,946.25).

Optionally, borrower with 699 FICO could get 5.25% at zero points and monthly payments of \$4,029.71 - \$112.25 more per month than the borrower with 740.

One lender will make loans on second homes ONLY to borrowers with a minimum FICO score of 740. Borrowers with a 739 score can't get a second home loan from that lender in any amount at any rate -- period.

And this lender has among the most competitive rates.

Clearly this demonstrates the importance of establishing the highest FICO score possible and maintaining that score. It's money in borrowers' hands, not in the lenders'.

The loan preapproval process will flush out and enable possible solutions to credit issues, potentially raising FICO scores.

The necessity for home buyers to contact a competent loan consultant way in advance of even searching for a home, not to mention making an offer, without loan preapproval cannot be overstated.

That advice may sound self serving but really it's the buyer who is the beneficiary.

2010 - A poem

Following is a poem written by an anonymous mortgage loan consultant that showed up on the web in January.

It so accurately describes how last year was for all of us that we decided to "borrow" it and share it with you. Enjoy.

How to describe last year's story  
With one word. Regulatory!!  
Consumers? The Feds wish them oh so well!  
Yes- good intentions pave the road to hell.  
To punish the villains of our industry,  
They devised a plan of transparency.  
Brilliant idea! HVCC,  
And a "comprehensible" GFE!  
That form is now so simplified,  
That everyone is mystified.  
Each lender sees it differently,  
Can the broker get the YSP??  
What dates? Which blocks? Are we compliant?  
It's hard to not get all defiant!!!  
What day can we sign our docs?  
For each thing there are different clocks!  
A three day wait....do we start with zero?  
When docs go out we're the hero!  
We've never seen so many quirks!  
No one's sure how this all works!  
When to collect borrower's fees?  
Brokers re-issuing GFE's!!  
Paperwork brings us to our knees!  
We're murdering so many trees!  
Re-verify and then once more,  
Borrowers hate us by the score!  
When was the appraisal sent?  
Where's that pesky document?  
Our government in its benevolence,  
Never uses common sense.  
The only ones who are helped at all,  
Are those supplying alcohol!

