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For the week of Mar 10, 2008 --- Vol. 6, Issue 11

Last Week in Review ▶

"I'M GOING OFF THE RAILS ON A CRAZY TRAIN..." OZZY OSBOURNE And speaking of going off the rails crazy...Bonds and home loan rates just experienced one of the most volatile, crazy weeks ever seen, with **fixed home loan rates rising by about .375% by the time the smoke cleared.**

During the first four days of last week, Bonds underwent a crazy 313 basis point sell-off - more than they sometimes move over the course of six months. Why the insane action? Uninspiring commentary from Federal Reserve officials, renewed fears of inflation...and another very interesting story playing out last Thursday. Losses from The Carlyle Capital Group and Thornburg Mortgage decreased their capital to the point where their financial backers had asked for cash back in the way of a "margin call". What does this mean?

Imagine a home that received a loan for 50% of the value...but a provision in the loan stated that under no circumstances could the equity fall below 50%. And the home would need to be appraised every day to evaluate this. If the home lost significant value, the lender would be entitled to an immediate payment to retain the 50% equity position. So if the home did indeed decline in value, the lender would make a **call** for capital to make sure their 50% **margin** of loan-to-value remains intact...hence the name **margin call**. If the homeowner had the cash to meet this call - all is well. But if the homeowner did not have the cash, the only way to satisfy the lender would be a sale of the home. And that is basically what Carlyle Capital Group and Thornburg Mortgage had to do last Thursday...they didn't have enough cash on hand to meet their margin call, so they were forced to sell home loans that they were holding. This flood of mortgage paper on the market pushed Mortgage Bond prices lower...much lower.

The week was shaping up to be one of the worst in history for Bonds and home loan rates - but then, remembering that weak financial news is good for Bonds and home loan rates, Friday's utterly dismal monthly Jobs Report came to the rescue. On the report that there were a net loss of 63,000 jobs in the US last month - as well as negative revisions to previous months reports - Bonds rocketed back higher, at least enough to erase the previous day's losses, but still ended significantly worse off for the week overall.

"I'D GLADLY PAY YOU TUESDAY FOR A HAMBURGER TODAY"...BUT DID WIMPY REALLY EVER PAY POPEYE BACK? OR DID POPEYE SOMEHOW GET OUT OF MAKING THE LOAN IN THE FIRST PLACE? IF YOU'VE EVER HAD A FRIEND OR FAMILY MEMBER HIT YOU UP FOR MONEY, YOU KNOW IT CAN BE AWKWARD. READ THIS WEEK'S MORTGAGE MARKET VIEW FOR SOME TIPS ON HOW TO HANDLE THOSE APPEALS.

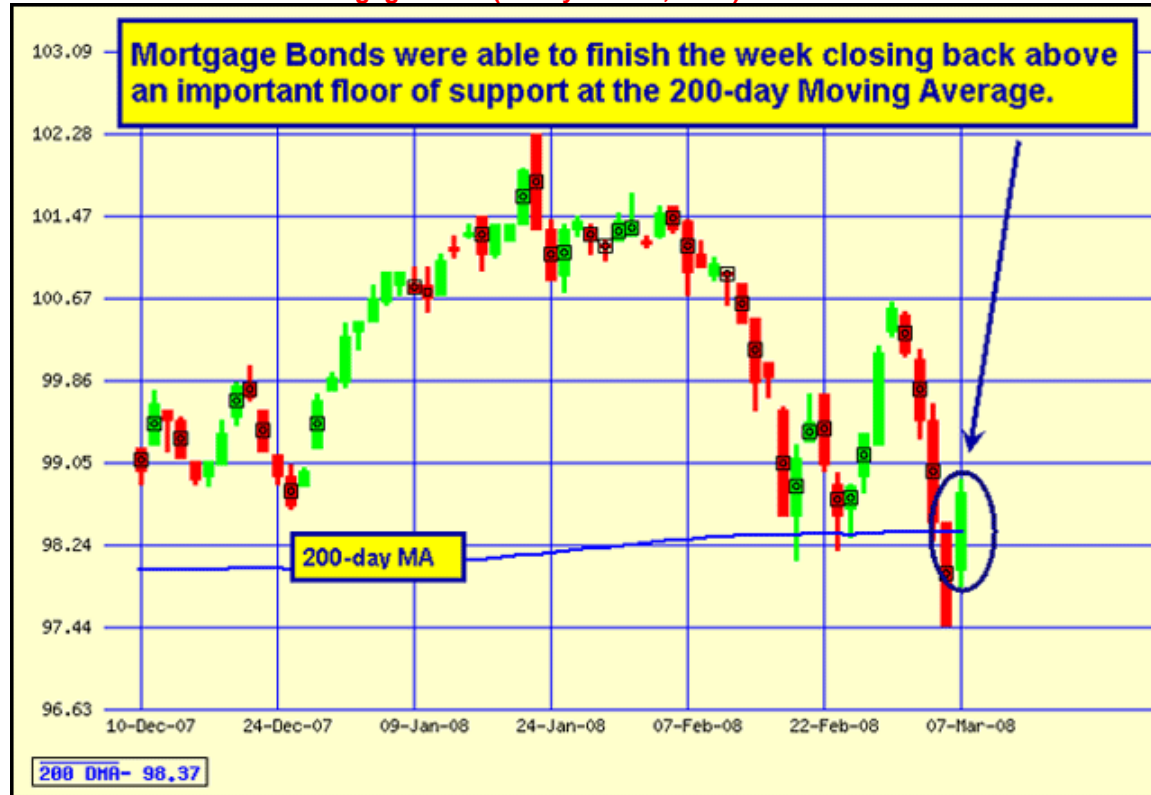
Forecast for the Week ▶

And don't think the wild ride is over...Bonds and home loan rates are probably not pulling into the station just yet, so stay strapped in and keep your hands on the safety bar. Another week of potential volatility lies ahead, with several key economic reports due for release, including Retail Sales, Initial Jobless Claims, Consumer Sentiment and the inflation-measuring Consumer Price Index.

Remembering that when Bond prices move lower, home loan rates move higher - the chart below shows just what kind of dramatic volatility has been seen of late. The 200-day Moving Average shown in blue has traditionally been a very strong "floor of support" or "ceiling of resistance", depending on which side of the line Bonds are trading. Last Thursday's action saw a deep dip below this benchmark line in the sand - but Friday's strong positive move helped Bonds power their way back above the line.

The news in the days ahead will dictate which side of this important line Bonds will head next, and could determine the trend for the next several weeks...and perhaps even months.

Chart: Fannie Mae 5.5% Mortgage Bond (Friday Mar 07, 2008)



The Mortgage Market View... ▶

NEITHER A BORROWER NOR A LENDER BE?

Ever have a friend or family member ask for a loan? It can be awkward, and for many the knee-jerk reaction is to just pull out the checkbook. But having the funds available to extend a loan is often not the point when it comes to lending money... it's knowing when or if you will ever receive your hard earned funds back.

According to a Federal Reserve survey, over 8% of Americans have loans that have been extended to friends and family. By some estimates, these loans total a whopping \$89 billion and an eyebrow-raising default rate of 14%, versus just 1% for those who borrow from a bank. So before you decide to play banker with your friends and family, consider these steps to help avoid a potentially ugly situation.

Don't Commit Right Away. When asked for a personal loan, don't say yes right away, especially if the sum of money is large. It has been said that "quick to borrow is always slow to pay." So while you want to show compassion for the friend or family member and tell them you would like to help, explain that you need a few days to review your financial situation and make a decision. Perhaps another solution will come to them in the meantime.

Just Say No. If possible, try to avoid lending the money. Statistics suggest that the risk of not getting repaid is

very high, which could be damaging to your relationship. HOWEVER... before you blurt out a blunt "NO," consider the amount requested, provide an explanation that will not hurt your relationship, and offer to help in a non-financial way. Or consider giving a smaller amount as a gift, with no expectations of repayment. This allows you to be generous on your own terms, and removes the potentially heated issue of non-repayment.

Be Specific. If you do decide to extend a loan, sit down with your friend or family member and set expectations. And don't beat around the bush... be very specific about the term of the loan, interest rate, payment plan, even the penalty that will be incurred should a payment be missed.

Get It In Writing. Always put the terms in writing. Seven out of ten personal loans are not put in writing... but again, consider the markedly higher default rate of non-documented loans. A written agreement reinforces that you are serious about the repayment terms discussed, and it prevents any potential misunderstandings. Promissory notes can be purchased online at www.nolo.com for a reasonable price. If the loan is large or complex it may be most beneficial to have an attorney draw up an agreement. Make sure the loan papers are filed away in a safe location, and then keep good records.

One important note, if the loan is in excess of \$10,000 or the money will finance income-producing activities, the IRS expects you to charge a certain amount of interest...and claim it as taxable income, of course. To find the current rates, visit www.irs.gov and search for AFR (Applicable Federal Rates). You can also contact your trusted CPA for advice--or if you don't have one, ask me--I may be able to provide a referral.

The Week's Economic Indicator Calendar ▶

Remember, as a general rule, weaker than expected economic data is good for rates, while positive data causes rates to rise.

Economic Calendar for the Week of March 10 – March 14

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. March 11	08:30	Balance of Trade	Jan	-\$59.5B		-\$58.8B	Moderate
Wed. March 12	10:30	Crude Inventories	3/08	NA		-3056K	Moderate
Thu. March 13	08:30	Jobless Claims (Initial)	3/08	360K		351K	Moderate
Thu. March 13	08:30	Retail Sales	Feb	0.1%		0.3%	HIGH
Thu. March 13	08:30	Retail Sales ex-auto	Feb	0.2%		0.3%	HIGH
Fri. March 14	08:30	Consumer Price Index (CPI)	Feb	0.3%		0.4%	HIGH
Fri. March 14	08:30	Core Consumer Price Index (CPI)	Feb	0.2%		0.3%	HIGH
Fri. March 14	10:00	Consumer Sentiment Index (UoM)	Mar	70.5		70.8	Moderate

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