



Provided to you Exclusively
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Last Week in Review ▶

GOOD, BAD OR UGLY? All of the above, if we're looking at last week and home loan rates. Good news came in the form of friendly inflation and employment news, which helped **rates on conforming home loans improve by about .125% over the course of the week.** "Conforming" home loans are those under \$417K, and subject to very standard credit, income and asset qualifying, nothing exotic, outside the box or fancy - and there's a reason those are being singled out here as having improved. More on that later.

A little bad news came by way of the Bureau of Economic Analysis, revising previous personal savings rate estimates higher, but showing that Americans still save less than 1% of their income. If you're not sure that you are preparing effectively for your future plans, like retirement or sending your kids to college, please get in touch with me, and let's review your situation to see if I have an idea or referral that might help.

The ugly last week - well, it was really ugly. The media screamed all week about issues in the mortgage industry, particularly impacting what are called "non-conforming" home loans; those that are dollar amounts higher than \$417K, or with credit, income or assets not falling under traditional guidelines. Many of those rates got excessively ugly, in many cases, overnight. Why? It's an interesting story, and not one that even the media seems to understand very well. But read on, as this week's Mortgage Market View unpacks all the details...and what you can do now to make sure you won't be impacted.

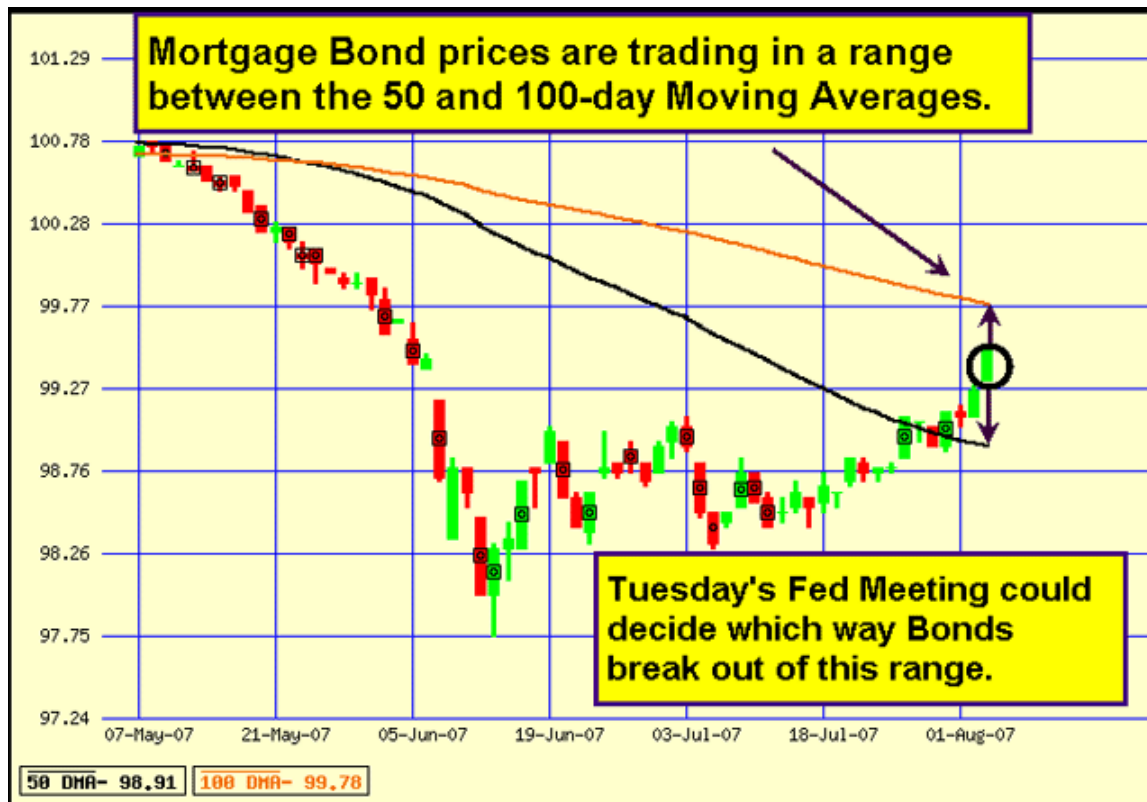
IN THIS WEEK'S MORTGAGE MARKET VIEW, THE REAL STORY BEHIND THE HEADLINES OF CRISIS AND DRAMA IN THE MORTGAGE INDUSTRY...DON'T MISS IT, AS YOU'LL LEARN WHAT IT'S ALL ABOUT, AND WHAT YOU SHOULD DO RIGHT NOW.

Forecast for the Week ▶

Whew...after a busy week of expected and unexpected news last week, the economic report calendar becomes very tame this coming week, only populated with a handful of low-level reports. In fact, the week's only major event takes place on Tuesday with the release of the Fed's latest interest rate decision and monetary Policy Statement. The Fed is expected once more to keep their Fed Funds interest rate "on hold" at 5.25%.

But what will be of particular interest is the tone and wording of the Fed's Policy Statement. Are they feeling more comfortable about inflation, given the inflation friendly news of last week? If this sentiment leaks into the verbiage of the Policy Statement, Bonds may get a ride higher upon the release, and home loan rates would improve. **However, if Fed Chair Ben Bernanke and his fellow inflation fighters at the Fed still sound concerned about inflation, Bonds and home loan rates could worsen.**

Chart: Fannie Mae 6.0% Mortgage Bond (Friday Aug 03, 2007)



The Mortgage Market View... ▶

Current State of Mortgage Financing...What's Going On?

Anyone watching or reading the financial news over the last few days and weeks has seen a lot of angst and consternation over the state of the mortgage industry. In fact, one of the larger lenders in the US, American Home Mortgage, was forced to shut down operations last week. But why? What is happening, and most importantly, what does all this mean to you? Let's unpack the definitions and details, so that you really understand the truth behind the headlines.

Over the past several years, many loans were made to homeowners with somewhat non-traditional or "non-conforming" situations, be it a poor credit history, inability to document income, or any number of factors that do not fit within the traditional "box" for home loans. These loans are often called "Sub-Prime", or "Alt-A", meaning that they were somewhat riskier in nature than A credit, prime, or traditional loans. Another type of "non-conforming" home loan is one where the credit and income might be perfectly fine, but the loan amount is higher than \$417K, which is the current maximum loan that can be done using pools of money from mortgage giants Fannie Mae (FNMA) and Freddie Mac (FHLMC). If the loan amount is higher, it can certainly be done - it's called a "jumbo loan" - but the end money comes from private institutions, not from the large government sponsored entities of Fannie and Freddie.

Most non-conforming loan product rates popped significantly higher in the last week. Here's the scoop.

The end investor for Subprime or Alt-A loans will charge a premium for taking on a pool of these loans, because they know that traditionally, they might have a higher rate of default and delinquent payments within that risky pool. But lately, default and foreclosure has been on the rise - partly due to the fact that with credit tightening and a soft real estate market, many troubled homeowners are unable to refinance or sell in order to get out of trouble. So now, these end institutions are demanding a much higher "risk premium" for taking on these pools of loans, as they see the rates of default are climbing higher.

But since these institutions are purchasing these pools of loans sometimes months after the borrower has actually closed at a given rate, this increase to the risk premium means that instead of paying \$101K for a \$100K loan that will bear interest, they may only be willing to pay \$95K for that \$100K mortgage to account for the risk. Multiply that times thousands upon thousands of loans...and you have millions upon millions of dollars in loss for the company trying to sell the pool at a much lower price than they were expecting. This is called a "**liquidity crisis**", and is exactly what happened to American Home Mortgage - there was no mismanagement, but they simply got caught holding too many "hot potato" loans, forced to sell them at massive losses...and eventually they had to make the decision to close the doors and stop the bleeding.

Further, even when a lender is able to take some losses, they may be subject to a "margin call". This means that as their losses and risk premiums increase, the value of their loan portfolio decreases. As the value decreases, the credit lines that are secured by those portfolios begin to issue margin calls as the value of the asset that they are secured on is now diminished. This is exactly like margin calls in the Stock market. If you have a loan against a Stock that is losing value, you will get a "margin call" and need to pay down the loan, as the underlying Stock is losing too much value to be considered adequate collateral any longer. So for the big lenders, as their portfolio is losing value due to increased risk premiums and losses...the margin calls start coming in, and they are required to pay down their balances. In turn, this means that they have less availability to fund their new loans, which then exacerbates the problem.

In response to seeing this situation play out in the demise of American Home Mortgage, lenders of other non-conforming loan products increased their interest rates dramatically almost overnight to be better prepared - and likely over-prepared - for increased risk premiums down the road. Even though loans above \$417K are not presently suffering from increased delinquencies like the Subprime and Alt-A loans are, these rates popped higher as well, because they are being purchased by smaller private entities that can't afford to take on any margin of risk.

What happens next, and what should you do now?

The present situation will likely settle out over the coming year, and the rates on products that have moved so significantly higher now should trend lower down the road as delinquency rates stabilize. But here are a few important things to do right now.

First, even if you are not presently in the market for a home loan of any type, call me to make sure that your credit standing is as solid as possible. Many people I talk to about home loans didn't expect they would have a need, and didn't plan in advance to ensure their credit would qualify them for the best possible financing. With no immediate need for a home loan, time is on your side...why don't we take a few minutes together and just make sure you are prepared, should a need arise down the road?

Next, if you are in the market for a home loan, or know someone who is - know that now is time to be working with a real qualified professional who can keep you informed of changes in the market and get your loan funded quickly. Now is NOT the time to be playing the risky game of trying to scour the entire nation to find someone who promises to save you a paltry amount on costs, or deliver a rate that seems too good to be true. Your home and your financing are just too important, and times have changed. I am here to help and advise during these volatile times - and would welcome calls from you, your friends, family, neighbors or coworkers.

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 August 06 – August 10

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. August 07	02:15	FOMC Meeting					HIGH
Wed. August 08	10:30	Crude Inventories	8/03	NA		-6497K	Moderate
Thu. August 09	08:30	Jobless Claims (Initial)	8/04	310K		307K	Moderate

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