

Mortgage Minute

State of the Market

How the current state of affairs in the financial world are effecting us

The world of finance and banking continue to dominate the news landscape. This month I'll recap some of the recent headlines and how these events are shaping life as we know it both personally and for mortgage lending.

July 11th saw the federal government seize **IndyMac Bank**. IndyMac is the second largest financial institution to fail in US history. The largest failure in history is **Continental Illinois National Bank & Trust** of Chicago in 1984, which at the time was the seventh largest bank in the US.

The failure of IndyMac was fueled by a combination of things. First it had a large chunk of loans, which included the option payment type, which it was unable to sell in the secondary market because investor appetite had changed since the beginning of the credit crunch began last summer. The bank also saw almost 1.5 billion dollars in customer withdrawals in the two weeks prior to the FDIC seizure.

On a positive note, recent real estate news regarding the **sales of existing homes** included some good news for this geographic area. Although nationally the number of existing home sales declined from May to June, existing home sales in the West rose by 1%.

Earlier this week, President Bush signed the **Housing and Economic Recovery Act** into law. The key piece of the legislation is the potential rescue for

many homeowners facing foreclosure because their mortgage payment exceeds a certain percentage of their income. This could be due to a payment or rate adjustment on their current mortgage.

The program would allow these borrowers to refinance their mortgage into a more affordable 30 year fixed-rate FHA loan. Refinancing would require the borrower's current lender(s) to voluntarily take a loss as the new loans will be capped at 90% of the current appraised value of the home. It is still unsure at this time if the banks holding these notes to be refinanced will do what they have said they will do and actually agree to take these losses.

The act also outlines requirements for increased regulatory oversight for **Fannie Mae and Freddie Mac** while at the same time extending them a line of credit to help them stay afloat. Fannie and Freddie are government-sponsored enterprises (GSE's) that own or back about half of the residential mortgages in this country. With so much riding on their continued existence it is easy to see why both of these steps were necessary.

This legislation also outlines the end of down payment assistance, or "**grant**" programs, as of Oct. 1st that have been used in conjunction with FHA loans essential to get buyers into homes with no money down. Unless other

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Today's Rates at a Glance

30-year fixed
6.250%
(APR 6.436%)

30-year fixed IO
6.625%
(APR 6.798%)

Oregon VA
30-year fixed
Up to 97% LTV
5.500%
(APR 5.719%)

Calculations based on a first-time homebuyer purchase, loan amount of \$200000 and an 80% loan to value (unless otherwise noted). Rates include a 1% origination fee and are as of 8-1-08 and are subject to change.

Credit Score Tip of the Month

Three clients this month had to postpone their mortgage transactions due to credit inaccuracies on their report, so it is broken record time... Access your free credit report regularly to check for accuracy at www.annualcreditreport.com

Mortgage Question of the Month

Q: For how long are my payments just interest on an interest only loan?

A: Typically the interest only payments last for 10 years, or 120 months, and then the payments become both principle and interest for the remainder of the loan.

Random Useless Piece of Information

Jack Norworth wrote baseball's classic song, "Take Me Out to the Ball Game" in 1908. He later rewrote part of the song in 1927. It is only the refrain, not the entire song, which is sung by adoring fans during the 7th inning stretch of a baseball game. Ironically, Norworth did not attend his first major league baseball game until 1940.

legislation reverses this decision, it leaves basically two no money down options for buyers, federal VA home loans and USDA rural housing loans. To qualify for a VA home loan one must be a vet meeting certain criteria. To use a USDA home loan the property must meet certain criteria, which would include almost any property in Marion and Polk counties outside of the Salem/Keizer city limits.

Recently I've been asked a lot in light of all this news, "**what do you think rates will do?**" My answer? They will change. Up? Down? Who knows, certainly not me, or for that matter people a lot smarter than myself know what will happen tomorrow.

These headlines, along with buzz words like **liquidity, inflation, bailout, and recession** dot the landscape of our daily lives impacting daily decisions. Do I know when the **credit crunch** and the **housing crisis** will end? Of course not. But the reality is our decisions hold much of the power of whether or not it will end sooner or later.

IndyMac's failure is a perfect example. It begins with concerns over the health of the bank including its lending practices. This causes the stock to drop in price, which causes many depositors to withdraw their money. Then the bank warns the SEC that they were experiencing an elevated level of withdrawals, which caused Charles Schumer (D-NY) to issue a statement that more withdrawals could leave the bank "in a disastrous situation," which caused the stock to drop more and motivate more withdrawals, *a lot* more withdrawals. This leaves no more money to give back to depositors, which caused the feds to show up and take over.

IndyMac's failure may very well have been inevitable, but the timeline for how quickly it did fail was a result of everyday people's actions. I've read estimates that the actions of the depositors at IndyMac sped this failure timeline up from many months to just a few days. A lot could have happened to right the ship

in many months and none of us can be sure that IndyMac would not have been able to weather the storm if it hadn't been for the actions of its depositors.

Every day I interact with people paralyzed to make real estate decisions because of what they, the internet news source or the plumber down the street thinks will happen to rates and the market. I have two thoughts for these people. First, listen more to the expertise of professionals in your life that care about your well being, like your financial advisor. And second, if buying a home makes long-term financial sense for you and your family today, then move forward with it and start sleeping better at night by letting tomorrow worry about itself.

We get to decide if we allow fear and negativity run our lives or if we will let wisdom and peace prevail. I firmly believe that the more we can operate in "business as usual" the faster we will find the other side of all of this. Are there things to learn from back along the path we've walked and are there changes that can be made to help ensure it does not happen again? Of course, so let's get to the other side and do that.

I'm not saying we should turn a deaf ear to all that is going on in the news or pretend that times are not tougher than they are. I am saying that we might be better off to take a breath and filter it all through a bit of perspective. Maybe all of this credit and housing stuff ends worse than anyone can imagine and we all lose all of our precious *stuff*, is that really the end of the world? I don't know about you, but the best part of my day isn't checking the balance in my investment account (even if it is growing), it is the hug I get from my wife and kids when I get home and walk through the door.

So let me conclude with a quote from Dicky Fox in the movie *Jerry Maguire*, "Hey, I don't have all the answers. In life, to be honest, I failed as much as I have succeeded. But I love my wife. I love my life. And I wish you my kind of success."



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