the Mortgage Bulletin

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

George Remsberg
NMLS273263DRE00367060

Patty Hensley
NMLS273265DRE01137700

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As the poet said, "Only God can make a tree" - probably because it's so hard to figure out how to get the bark on.
Woody Allen

Mortgage scene after Fannie and Freddie

Last week's Bulletin addressed the probability of the ultimate demise of Fannie Mae and Freddie Mac and the impact of their disappearance on mortgage loans.

To be sure, whenever a big provider of mortgage funds exits the scene, the expected result will be for rates to rise.

But – just as it is likely that Fannie and Freddie are headed into oblivion, it is just as likely that it will be a long farewell. Even the proponents of doing away with them agree that an abrupt departure would do the mortgage market no good.

And a healthy mortgage market is absolutely vital to the fragile economic recovery that we all wish for.

So while it is important to know what's going on, Fannie and Freddie-wise, it is also important to know that nothing disastrous will happen right away. It's just something to be aware of.

It may take several years to wind them down. They'll both still be here in the morning.

It's also important to remember that borrower's demand for mortgage loans will continue. People want and need mortgage loans. And market forces will undoubtedly figure out ways to meet this demand, not because of altruistic motivation, but simply because of the desire to make a profit.

Mortgage investors have been burned before and that's one reason they have stayed on the sidelines for so long. They do not want to get burned again.

As painful as the past couple of years have been in terms of tighter lender guidelines and underwriting scrutiny, the pain has been accompanied by gain. The gain of course is that the loans created under tighter guidelines and more intense underwriting scrutiny are good, solid loans. This shift in the creation of mortgages has not gone unnoticed by investors.

Additionally, the types of available loan products has undergone a significant change. And the change, for the most part, is for the better.

Loan products sometimes described as "exotic loans" are either extinct or on the endangered species list.

Negative amortization loans are rarely seen. "No doc" loans do not exist. Stated income loans are extremely rare. Interest only loans are very rare, but available.

So the mix of loans that can be securitized and sold today on the secondary market are "pure" compared to the mix of unknown ingredients in the past.

Mortgage loan originators have been struggling under the weight of new and complex regulations, but it must be admitted that some of the new rules will lead to a healthier industry.

While this is true, it seems clear that the pendulum has swung radically from regulations that were too lax to regulations that are too strict. Hopefully, as these new regulations are implemented and put to the test, the pendulum will swing back to a happier medium.

Meantime, it is encouraging to note the reappearance of true jumbo financing. This is particularly important for home buyers and home owners in high priced housing areas.

The pending reduction in high balance conforming loan limits from $729,750 to $625,500 at the end of September makes true jumbo loans even more important.

So, despite what you hear about Fannie and Freddie, the mortgage market looks pretty healthy.

Get these rates while you can.