

the Mortgage Bulletin

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"Being realistic goes hand in hand with being optimistic because when you're realistic, you can narrow down the range to what is believable, and then strive for the upper end of that range."
Brian Kim

He who hesitates

Lots of folks are waiting for the 4.5% mortgage rate.

Borrowers with rates in the high 5% range are waiting for the magic number to pull the trigger on refinancing.

Home buyers are waiting, not only for the 4.5% rate to arrive before making an offer; they are also waiting until the housing market "hits bottom." Here are some thoughts about this.

We've gone over this before but it bears repeating: the lowest rates for mortgages are for loans (on single family homes in California) up to and including \$417,000. And it may be possible to get a 4.5% rate for a \$417,000 loan.

In order to get 4.5%, borrowers must be fully approved, armed with an appraisal, have met all conditions of the loan, and thus able to lock for 15 days or less.

Other factors, including credit scores and loan to value also contribute to getting the lowest rates. Rule of thumb, your scores must be at or above 780, and the loan to value must be 60% or less.

Different lenders have different matrix of scores and loan to value, but 780 credit score and 60% loan to value are fairly common limitations.

You might have to pay points, or fractions of points to get 4.5%. But it is possible.

The next step in rates is for loans between \$417,001 and \$729,750. These loans are called different things, but "high balance conforming" is a common term. Again, in order to get the lowest rates, the same factors come into play as listed above.

In general, rates for high balance conforming are about .375% above rates for true conforming.

If the loan you seek is above \$417,000, you must remember that the \$729,750 limit is

temporary --- meaning it goes away at the end of 2009. So if this is your loan size, bear that in mind.

If the loan you seek is above \$729,750, be prepared to pay significantly higher rates, particularly for fixed rate loans. Lenders are pricing true jumbo fixed rates at levels designed to discourage anyone from taking them. Reason? There's no secondary market for these loans.

If you are a buyer waiting for prices to hit bottom, good luck. You'll only know this from the clear view of hindsight. Don't expect the bottom to show up until the rate of foreclosures slows and then declines. By the time you know this, it is likely that values will already be on the way up.

Back to conforming rates. Will they go lower than they are now? Consider the following.

The Federal Reserve has been buying mortgage backed securities and say they will continue "as conditions warrant." But they are buying these coupons at rates around 5.5%, which are represented by mortgages of around 6% to 6.5%. These are the mortgages that are being refinanced, thus repaying the Fed, allowing them to purchase more.

Unless the Fed starts buying coupons at rates below 5.5%, which is unlikely, don't look for rates to drop further.

Should you wait for lower rates or for home prices to bottom out? Maybe. Just don't get too greedy.

If it's a good rate and you can save money -- refinance now. If it's a home you like and you can get financing -- buy now.

You don't want to be the one who hesitated only to find that you missed a golden opportunity that is no longer available.

Have a good week!



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