

the Mortgage Commentary

June 2009

Diversified Capital Funding
30 Whitney Street
Los Altos, CA 94022
Phone: 650-917-6688x215 or 210
Fax: 650-229-0129
gremsberg@divcap.net
phensley@divcap.net
www.georgepattyteam.com



George Remsberg



Patty Hensley



“Realize that if you have time to whine and complain about something, then you have the time to do something about it.”
Anthony J.D'Angdlo

This may be as good as it gets

Mortgage rates have been, for the past couple of months, moving up and down, but within a fairly narrow range: comparable to a ride on a raft floating down a slow moving river.

That all changed on the last Wednesday of May when mortgage bonds sold off on the last and mortgage rates spiked sharply upward. Bonds lost an astonishing 206 basis points and rates jumped nearly a full percent in just one day.

Refinance borrowers holding out for better rates must have had that scary pit in the stomach feeling induced by the Matterhorn Bobsleds at Disneyland.

Buyers in contract to purchase, but floating rather than locking rates, hoping they could get the elusive 4%, saw their hopes dashed at least temporarily. The difference between these borrowers and bobsled riders of course is that the bobsled riders were having fun.

So what happened? Why did rates suddenly turn? And what are they likely to do in the future?

Note: what follows is not necessarily the truth, but rather it is an interpretation. Other interpretations can and will be made.

First of all, the spike caught everybody off guard. Lenders posted up to three re-pricings for the worse during the day that is now known among mortgage brokers as “Black Wednesday.”

That’s the way it happens now and then, rates spike and everyone gets caught off guard. That should tell you that nobody can predict rates accurately and last Wednesday’s shift should serve as a cautionary tale for anyone thinking they can outsmart the market.

What happened is that the US Treasury has been printing money in the hundreds of billions of dollars. And these billions must be absorbed by the market.

Also the huge number of recent and present refinance loans are just now hitting the secondary market, and they have to be

absorbed.

In short, the supply of treasury and mortgage bonds got out of balance compared to demand and the tension between treasury bonds, which have been steadily rising and mortgage bonds, which haven’t – suddenly snapped.

Mortgage brokers and borrowers everywhere hoped, of course, that the sharp loss in mortgage bonds was an over-reaction. After all, markets are made up of people and people can frequently over-react.

By close of business on Friday, rates had softened somewhat, but did not return to the recent lows.

Then on Monday, the first day of June, mortgage bonds sold off again and mortgage rates rose again. This time, the sell off in mortgage bonds seems to have been the result of a rising stock market and investors taking money out of bonds and putting it into the stock market.

What can we expect mortgage rates to do in the future?

Certainly there is reason to believe that they will continue to rise. It is quite possible that huge budget deficits will lead to inflation. Fear of inflation could account for an over-reaction by the markets last week.

However.

Economic recovery depends on recovery in the real estate market and the real estate market depends on low mortgage rates. An upward spiral of mortgage rates will almost certainly delay any recovery of the housing market.

So we expect the Fed will do whatever it takes to keep mortgage rates relatively low until there are clear signs of economic recovery.

But don’t count on rates returning to recent lows. They may not. If you are contemplating a refinance, this may be as good as it gets.

The AMC might charge \$500 and pay the appraiser, through a bid process, only \$300. And given a limit of \$300, the appraiser cannot afford to spend the hours required to do a thorough job. So you, the consumer, end up paying more for an inferior appraisal.

New appraisal rules

If you applied for a purchase or refinance loan prior to May 1st, 2009, you will find yourself operating under a whole new set of rules vis-à-vis the appraisal the next time you apply.

And the new rules are, unfortunately, not consumer friendly.

If you want to refinance, no longer will your mortgage broker (at no cost to you) be able to call an appraiser for a comp search to determine probable value. And since value and determine not only the rate you may get, it can also determine if a refinance is possible at all.

Under the new rules, you must pay for an appraisal up front in order to know the appraised value. Only then will you know the feasibility and probable interest rate of a refinance.

Under the new rules, your mortgage broker can no longer select the appraiser based on the appraiser's reputation for competency and service.

Under the new rules, the appraisal order must be placed with an Appraisal Management Company (AMC), typically owned by the lender, which in turn selects the appraiser sometimes through a "bid process" and sometimes by simply taking the next appraiser on their list.

Under the new rules, no party to the loan transaction: the mortgage broker, the Realtor (on a purchase), the seller, the buyer, or the borrower can have any contact with the appraiser. The firewall between appraiser and all these parties is solid.

Under the old rules, the appraiser might charge \$450 for an appraisal, the fee being determined essentially by the number of hours required to do the work. Under the new rules, AMC can charge more than the appraiser is paid. This can cause problems as you will see in the next column.

New appraisal rules (con't)

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Under the old rules, lenders had an approved appraiser list. So your mortgage broker selected an appraiser that was on "everybody's approved list," and the appraisal was done for the mortgage broker. Thus if it became necessary to switch lenders, no problem.

Under the new rules, the appraiser is selected by the lender, the appraisal is done FOR that lender and (at present) is not transferrable to another lender. So, if it is necessary or desirable to switch lenders — tough luck — you have to pay for another appraisal. And of course this adds time to the process.

All of these new rules were adopted pursuant to an agreement between Andrew Cuomo, the Attorney General of New York and Fannie Mae and Freddie Mac. The purpose was to prevent inflated appraisal values. And now the whole mortgage industry is bound by the HVCC.

So, let's sum up the advantages of the new rules to you, the borrower.

You will pay more for appraisals and appraisals will quite likely be of inferior quality.

You will be unable to determine, in advance, the feasibility of a refinance without paying for the appraisal.

Having paid for the appraisal, it still is not yours to use with a different lender. You'll need another at additional cost and time.

If you don't like these new rules, ask your mortgage broker what you can do to assist us in getting them reversed.

