

the Mortgage Bulletin

Week of March 24th, 2008

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The mortgage market is VOLATILE

Is this something new? The mortgage market is always somewhat volatile, because rates can and do change daily or more often and without notice.

But in the continuing fallout from the subprime mess, lenders have gotten even more sensitive to economic data and events. As any loan originator (mortgage broker, loan officer, loan agent, or mortgage banker) can tell you, it is a difficult task to keep up with changes.

In normal times, a day at the office goes like this. Rates are posted by most lenders by about 9:30 AM Eastern Time. That means, of course, 6:30 AM Pacific Time.

Barring the release of a significantly surprising economic figure, rates remain unchanged for the day. But if, for example, a jobs report comes in with a higher than expected number of new jobs (signs of economic expansion, leading perhaps to inflation) a few lenders will advise of a rate change for the worse.

Conversely, if the jobs figure came in showing significantly fewer new jobs, some lenders might advise of improved rates, or more often, wait until the following day.

To round out the picture, changes in lender guidelines used to be rare events. That is to say -- loan amounts, loans to value, borrower's ratio of debt to income, required minimum FICO scores and the like, remained fairly constant. Days, weeks, months would go by with only minor changes. And changes, because they were rare, were easily tracked.

The subprime mess (and it really has been a mess) changed all that.

Lenders now have itchy trigger fingers, as they used to say in the western movies, ready to pull the rate trigger at the slightest provocation.

So now a typical day at the office goes like this. Rates are posted early in the morning. But that's all we can depend on.

On eight of the last ten days including today, NOTICES OF RATE INCREASES were posted by 8:30 AM, Pacific Time. On four of those eight days, two more rate increases were posted before the end of business. On three of the ten days, rate improvements were posted at some time during the day.

Now --- if you get dizzy trying to read the preceding paragraph, imagine how dizzy mortgage brokers, loan officers, etc. get. This is not to make anyone feel sorry for mortgage brokers or loan officers, but more to describe graphically just how volatile the market is these days.

As mentioned previously, guideline changes used to be rare. They are not, unfortunately, rare today.

We get notices of significant changes daily. A notable example: many lenders who used to offer "piggy-back" purchase financing -- 80% first loan and 10% second loan -- are eliminating this structure, particularly for higher loan amounts.

What does all of this mean to prospective home buyers? In essence it means that it is getting harder, not easier, to get "liberal" financing. Buyers waiting until home prices drop before buying may find, even if they get a lower price, that it may be more than offset by changing guidelines.

New guidelines may require bigger downpayments, higher FICO scores, and lower debt to income than at present.

And finally, all of this volatility demands that buyers deal with seasoned, competent mortgage consultants who keep you informed of changing guidelines and by monitoring the market can advise you when to lock your rate.



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