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Current Rates

Program	Conforming
30-Year Fixed	Mid 6's
15-Year Fixed	Low 6's
7-Year Fixed*	Low 6's
5-Year Fixed*	Low 6's
3-Year Fixed*	Low 6's
Cash Flow ARM	High 7's

(Index Value: 5.320)

(All programs above at 80% LTV)

FHA 30-Year Fixed (97% LTV) Mid 6's

USDA 30-Year Fixed (100% LTV) High 6's

The interest rates represented here are at one point.

*Amortized over a 30-year period. Following its fixed rate term, it converts to a 1-year LIBOR adjustable rate mortgage for the remaining term of the 30-year loan.

Many other programs available - please call for details.

Melanie Thompson
Registered Mortgage Advisor

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Issue 6 • August 2007

What's Happening to the Mortgage Industry?

That's the question of the year, and understanding this event, and how it's impacting the financial and housing market, is important to you. We've included an article by Barry Habib, one of the nation's foremost experts on the mortgage industry, that should clarify some of your questions.

Since December 2006, over 120 mortgage lenders have closed their doors, mostly in the sub-prime market, and more are likely to follow. Why? Mortgage lenders had loosened their guidelines to accommodate the booming housing market, and credit was extended to many borrowers who may not have qualified at other times. The country, and all of our financial markets, are seeing the effects of these loans performing so poorly.

Should we worry? No, not really. The short-term outlook may seem dreary, but the long-term outcome will reel-in many of the riskier lending practices. At the same time borrowers will have to become more cognisant of their own credit and financial well-being.

Experts believe the trend will continue for a little while, and things will be somewhat different in the future. Credit restrictions will be tighter, and those who truly care about the well-being of their clientele will remain in business. Now, more than ever, your credit and financial houses need to be in order. Please call me to ensure you are maintaining a proper course for the years ahead.

Melanie Thompson
Registered Mortgage Advisor



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DID YOU KNOW

72% of the calendar years since 1926 have produced a positive total return for the S&P 500.

(Source: BTN Research).





Current State of Mortgage Financing: What's Going On?

Provided by The Mortgage Equity Team
Melanie Thompson, Registered Mortgage Advisor
Barry Doyle, Production Coordinator



Anyone watching or reading the financial news over the last few weeks has seen a lot of angst and consternation over the state of the mortgage industry. In fact, one of the larger lenders in the US, American Home Mortgage, was forced to shut down operations recently. But why? What is happening, what does all this mean to you and most importantly... what should you be doing do right now to make sure you are protected?

Here's the scoop.

Over the past several years, many loans were made to homeowners with somewhat non-traditional or "non-conforming" situations, be it a poor credit history, inability to document income, or any number of factors that do not fit within the traditional "box" for home loans. These loans are often called "Sub-Prime", or "Alt-A", meaning that they were somewhat riskier in nature than "A credit", prime, or traditional loans. Another type of "non-conforming" home loan is one where the credit and income might be perfectly fine, but the loan amount is higher than \$417,000, which is the current maximum loan that can be done using pools of money from mortgage giants Fannie Mae (FNMA) and Freddie Mac (FHLMC). If the loan amount is higher, it can certainly be done - it's called a "jumbo loan" - but the end money comes from private institutions, not from the large government sponsored entities of Fannie and Freddie.

Most non-conforming loan product rates popped significantly higher recently. Here's what happened.

The end investor for Subprime or Alt-A loans will charge a premium for taking on a pool of these loans, because they know that traditionally, they might have a higher rate of default and delinquent payments within that risky pool. But lately, rates of default and foreclosure have been on the rise - partly due to the fact that with credit tightening and a softer real estate market, many troubled homeowners are unable to refinance or sell in order to get out of trouble. So now, these end institutions are demanding a much higher "risk premium" for taking on these pools of loans, as they see the rates of default are climbing higher.

But since these institutions are purchasing these pools of loans sometimes months after the borrower has actually closed at a given rate, this increase to the risk premium means that instead of paying \$101,000 for a \$100,000 loan that will bear interest, they may only be willing to pay \$95,000 for that \$100,000 mortgage to account for the risk. Multiply that times thousands upon thousands of loans...and you have millions upon millions of dollars in loss for the company trying to sell the pool at a much lower price than they were expecting. This is called a "liquidity crisis", and is exactly what happened to American Home Mortgage - there was no mismanagement, but they simply got caught holding too many

"hot potato" loans, forced to sell them at massive losses...and eventually they had to make the decision to close the doors and stop the bleeding.

Further, even when a lender is able to take some losses, they may be subject to a "margin call". This means that as their losses and risk premiums increase, the value of their loan portfolio decreases. As the value decreases, the credit lines that are secured by those portfolios begin to issue margin calls as the value of the asset that they are secured on is now diminished. This is exactly like margin calls in the Stock market. If you have a loan against a Stock that is losing value, you will get a "margin call" and need to pay down the loan, as the underlying Stock is losing too much value to be considered adequate collateral any longer. So for the big lenders, as their portfolio loses value due to increased risk premiums and losses, the margin calls start coming in, and they are required to pay down their balances. In turn, this means that they have less availability to fund their new loans, which exacerbates the problem.

In response to seeing this situation play out in the demise of American Home Mortgage, lenders of other non-conforming loan products increased their interest rates dramatically almost overnight to be better prepared - and likely over-prepared - for increased risk premiums down the road. Even though loans above \$417,000 are not presently suffering from increased delinquencies like the Subprime and Alt-A loans are, these rates popped higher as well, because they are being purchased by smaller private entities that can't afford to take on any margin of risk.

What happens next? The major damage is probably already done, and the present situation will likely settle out over the coming year. Lenders will stop pulling products off the shelf, and the rates on products that have moved so significantly higher now should trend lower down the road as delinquency rates stabilize.

But here are a few important things YOU should do right now:

One: Even if you are not presently in the market for a home loan of any type, **make sure your credit standing is as solid as possible.** Many people in the market for a home loan didn't expect they would have a need, and didn't plan in advance to ensure their credit would qualify them for the best possible financing. With no immediate need for a home loan, time is on your side... why don't we take a few minutes together and just make sure you are prepared, should a need arise down the road? Call or email me right away.

Two: If you are in the market for a home loan, or have a family member, friend or co-worker who is, understand that **now is the time to be working with a highly qualified professional** who can keep you informed of changes in the market and get your loan funded quickly. Now is NOT the time to be playing the risky game of trying to scour the entire nation to find someone who promises to save you a paltry amount on costs, or deliver a rate that seems too good to be true.

Your home and your financing are just too important, and times have changed. I am here to help and advise during these volatile times - and welcome all calls from you, your friends, family, neighbors, or coworkers.

By Barry Habib
Mortgage Market Guide