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Mortgage company failures continue to lead the headlines!!

INTRODUCTION

For many of you, this will be your first newsletter. I am using this newsletter to stay in touch with my clients and business partners. As always, if you feel I am cluttering up your mailbox, just reply with a "please remove me from your mailing list".

Also if you would like to look at previous newsletters, just click this link: <http://www.lincoln-trust.com/NewsArchive.html>

MARKET NEWS

The "body count" is now at 151. That is up from 56 in April of the lenders that have completely gone from the business of writing loans or have been sold to larger lenders at fire-sale prices. Of the latest grouping I have lost Aegis Mortgage, Novastar, BNC Mortgage (combining with Aurora Loan Services), and First Magnus. I used First Magnus quite a bit due to their excellent rates and ease to work with. They went boom to bust in about 3 weeks (literally). In mid-July the president spoke to his employees about the huge growth on the immediate horizon that will catapult them into one of the largest lenders available. Their business model, as many of you realize, is to bundle and sell 100% of their mortgages into the secondary market. Well within a few days, every one of their investors stopped funding loans.

In the last newsletter I spoke about Alt-A loans stepping up to fill some of the sub-prime gap, but now those loans were hit hard recently just like sub-prime. In fact, a large part of First Magnus business was Alt-A loans which are non-conforming (outside the guidelines of Freddie and Fannie) and this is the main reason they are gone from the business. Jumbo mortgages fall into the non-conforming ranks as well and the rates on those are a solid 1% higher than the conforming A-paper rate (7.5% vs. 6.5%). Before the meltdown, Jumbo's were only .125 to .25% more than a regular conforming loan. Also, stated income loans are harder and harder to come by. The client needs excellent FICO scores to qualify for a stated loan typically above 680 mid-score. The same high score is required if the client is looking for a reasonably priced second mortgage as well.

Option One is still with us as H&R Block found a buyer in Cerberus, which is a huge capital management conglomerate. Cerberus also bought GMAC Financial Services and they have also taken a leadership investment in Chrysler. If you remember your Greek mythology, Cerberus was the grotesque 3-headed dog "protecting" Hades. Not the company mascot I would have chosen?!?!

The good news is this meltdown is clearing out the industry of the "bad apples" that have written bad loans to get the highest payout possible. These players only survive in a growing market because they get no repeat business and no one will refer them to others. The FHA is becoming the new sub-prime marketplace. They underwrite loans to 97% loan-to-value where the borrower only has to supply \$500 from their own pocket. They don't care where the other 3% comes from and they even have a grant program for 2.5% of the loan value. They don't care about FICO scores, but all loans are full-documentation only. There really isn't much they don't approve of except they are more stringent about the actual property and the appraisal process is more detailed as a result.

The 30-year fixed rate trickled higher since my last newsletter in April. I was writing loans in the 6% range then and lately we have been at 6.5% but holding steady for weeks now. The Fed is finally whispering about rate cuts and the first in the Fed Funds rate (typically affecting the Prime) is widely expected this month. Home prices are indeed falling and I have heard of people taking a lot less than listing price in order to get out. There are scores of bank-owned properties on the market and these in particular can be negotiated lower (and you don't have to worry about hurting anyone's feelings when you low-ball them!).

Questions I occasionally hear as a result of the mortgage lending debacle:

Can I still get a loan?

The sub-prime and Alt-A markets have been hit hard and will probably continue to be hurt for some time to come. The regular conventional A-paper Freddie Mac and Fannie Mae loans are still widely available. On the other hand, the "stated income" loan, with less than pristine credit, is almost impossible to find. Sub-prime loans are available but mid-500 FICO scores will only get you 80% financing and the rates are well over 10%. Second mortgages are very hard to place if you are looking for 90% combined loan-to-value and above. Even with excellent credit, there are very few choices in the marketplace today for second mortgage.

No one should be discouraged or dissuaded from trying to buy a home or even refinancing. Regular conventional rates have dipped recently. I recently closed folks with 6.375% 30-year fixed – no points. There are multiple programs for people with less than perfect credit as well through NH housing, and even Freddie and Fannie. They offer rate add-ons

for various levels of lower FICO scores. They also have numerous programs all the way to 100+% financing for families with moderate income levels.

A growing alternative to stated loans for the self-employed are bank-statement backed loans. Here a lending company will take all bank deposits over the year as income for the client instead of using tax returns (where business write-offs minimize actual income). Business accounts are adjusted by 25-30% downward, but personal accounts are typically taken at 100% of deposits. These loans are written and priced just like full-doc loans.

What happens if/when my lender goes bankrupt?

Some of your lenders have already done so. What happens is another servicing company picks up where they left off. There can never be ANY changes to the loan you signed originally; you'll just need to mail your payment to a new location. Please don't ever miss a mortgage payment if you get word of your company getting into trouble. Make your payment as you always do until you get notified of who your new servicing company will be.

Should I be concerned if I have a sub-prime loan that will be changing rates soon?

When taking a sub-prime loan, it is always considered to be a temporary situation. As a result of on-time payments over the 2-3 year of fixed rate the sub-prime loan offers, the client's credit scores should be at a level that will allow conventional refinancing. On the other hand, if the client did not make payments on time and/or has driven their debt too high using credit card capacity, then conventional programs may still be out of reach. You should still get a full evaluation anyway since it costs you nothing to see what can be offered (Freddie and Fannie affordable programs, and FHA mentioned above for example). Of course not all sub-prime lenders are gone, and the rates are definitely higher, but it still may make sense to get into another 2-3 year fixed program.

IN CLOSING

ALL feedback is welcome! Suggestions for topics in future issues are welcome. Reply with any comments you'd like and remember there are no dumb questions.

warmest regards,

--Craig

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