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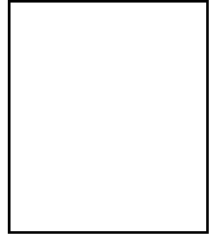
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# Market and Economic News

## The Fed is *Master of their Domain*

On May 19th, the Federal Reserve Open Market Committee (FOMC) met to decide whether to increase rates. Despite temptation, they proved to be *Masters of their Domain* and kept the rates steady. This was the first meeting in some time where there was a chance that the *puffy shirted* governors had some reason to consider a rate increase. For now, they have stayed away from *the move*. Basically, inflation is still low *yadda yadda....*

I was speaking with my friend, *Art Vandelay*, the other day about the Fed meeting. Art is an *Architect (Railroad, I believe)*. We had lunch with his girlfriend, who he just referred to as "*Schmoopie*". I later found out that her real name is *Mulva*, or was that *Delores*. Anyways, Art had some observations about the Fed meeting.

There was one governor at the meeting who was a *Low Talker*. He made a lot of statements which most of the other members could not hear, but they just shook their heads and agreed. When they realized that they had agreed to increase interest rates .50%, a ruckus broke out. Fed chairman, Alan Greenspan, broke in and exclaimed "*Serenity Now! Serenity Now!*". He threatened that no one will have a *Happy Festivus* if they continue to have these outbreaks throughout the year. They left the meeting with a big "*high five*" and no rate change.

Art believes that if there is no

*shrinkage* in the growth of employment, consumer prices and producer prices, we could see a Fed increase as soon as their June 30th meeting. Of course, if the *Bizarro Fed* shows up, we could see a rate decrease (very unlikely). Well we finished our *muffin tops* and Art had to get going to the Dentist, which was odd as he has been known to be an *Anti-dentite*.

Well, as I sit here eating my *Big Salad*, it seems that it is unlikely that the Fed will be doing an increase as soon as the June 30th meeting. Even *Superman* couldn't help a lot of the volatility going on in Asia. This



We

volatility has recently strengthened the Dollar, which in turn helps the Bond market.

Anyways, my waitress with the *man hands* has just left me with some *Junior Mints* along with a *Pez* dispenser and I should be wrapping this up. Rates are still great and have been pretty stable for the past three months. Rates on page four are basically the same as in the February newsletter.

**Note: To anyone who is not a "Seinfeld" fan, sorry if this seemed a little weird. This was my little tribute to Jerry, George, Kramer, and Elaine. I will go back to the straightforward format for the next newsletter. Not that there is anything wrong with that...**

**Brian's  
Mortgage and Finance  
Site**

Http://WWW.Jupe.Com

# To Pay Points or Not to Pay Points, that is the Question (1 point=1% of loan)

O.K., you decided you want that 30 year fixed rate loan just like your neighbor has. Today it is at 6.625% with 2 points (cool!) or you could do 7.250% with 0 points or 7.125% with 1 point etc.. Of course you would love to tell everyone at the water cooler that you have a 6.625% 30 year loan. Won't they all be impressed?? Or on the other hand will they all laugh at how much you paid for the "great" rate?

When considering whether to pay points, there are several things to consider. How long do you plan to stay in the property? At what time will the savings pay for the cost? What else could you do with that money going towards points? Do you foresee having to refinance the loan in a short period? If you are buying a home, is the seller paying any closing costs?

In the simplest of terms, the longer you are in the property, the more it makes sense to pay points. As you are in the property longer, the savings from the lower rate pays for the additional cost of the points. You can figure out what your break-even period is for paying for those points. If you are comparing a 0 point loan with a 2 point loan, the first thing you do is look at the difference in payments. You then look at what the difference in cost is between the points. Say you are looking at a \$200,000 loan at the above rates. The payment is \$1,281 at 6.625% and \$1,364 at 7.250%. This is a difference of \$83 per month. The two points on the \$200,000 will cost you \$4,000. Dividing the \$4,000 by the \$83 gives you 48.19 months (4 years). This means it will take 4 years of the savings to pay for the points.

In this same example, what could you do with that \$4,000 instead of paying points? You could leave it in your 401k that has been growing at 15-20% per year. At 15% per year, that money would more than double in 5 years(app. \$8,400). Now if you took the \$83 savings and invested it monthly making 15% per year, it would be worth about \$7,300 in 5 years.

The house may be fine now, but you will need to add a room in 2-3 years. This could be a factor in paying points or not. It could make more sense to refinance than to get a second at that time.

Sometimes sellers are willing to pay for some of the closing costs. Many times this will include 1-2 loan points. Of course, at this point it makes sense to

definitely pay the points.

Sometimes the decision to pay points is strictly from a comfort zone. You may not know how long you will be in the property or if there are any expansion plans. Bottom line is weigh all the factors and make a decision that is most comfortable for you.

## “Hard Money” may be a solution

As has been discussed before, there are different levels mortgage lending. The rates you see in the paper would generally be considered “A” loans. These are for people with good credit, stable income, and a good property. The next level down from “A” would be the “B-C” or “Sub-Prime” loans. These

### Have you visited my Web Page yet?

I am currently updating rate and market information every couple days or as needed. Other things you can check on the page include: My resume, copies of previous newsletters, links to other web pages, loan program information, and miscellaneous stuff about me.

Visit me at

loans are for people with some credit problems, unique income, or a property needing some work. Rates are based on the grade of the loan (i.e. A- Vs C).

Generally the last option for the real estate loan is the “Hard Money” loan (AKA Equity lender or Private Money lender). These lenders make loans based on equity in the property and the common sense of the deal. Rates and points are higher than the other loan options, and are determined by the risk the lender feels they are taking.

The “Hard Money” loan can be very helpful for borrowers in a pinch. With a property that has equity, a borrower who has income and/or credit problems may be able to get a fast solution with this loan. The goal with a “Hard Money” loan is to not remain a “Hard Money” borrower. These loans are generally written for short periods (3-5 years). This should allow the borrower time to clean up credit and

move up the loan scale.

I have recently had several loans that fit into the "Hard Money" category. Most lenders looked at these loans and said "no way", while the "Hard Money" lender said, "No Problem". The loans created solutions that may have not been there otherwise.

## **“My neighbor has a friend who knows a guy who has a cousin who says he saw a thing that said rates are going...”**

If I had a dime for everytime someone had a friend who was a rate expert.... I hear many people today say that rates are going lower. Many times, these opinions have nothing to do with facts or anything other than a "feeling" or at least a friend's feeling..

There are several things you can look at today to see if rates are going lower or at last have the possibility of going lower. The economy needs to slow down significantly. This is not happening right now. There are signs of some slowdown, but they do not seem to be significant at this time.

Another thing that can influence rates to go lower is lower inflation. This is tied closely with the

economic growth. Inflation is currently at a very low level, and most likely could only go lower with a recession.

Another thing that could be looked at for the possibility of lower rates is the "yield curve". This looks at rates in the Treasury market from the short-term (i.e. 3 months - 1 year) to the long-term (i.e. 5 yr.- 30 yr.). I feel that this may be the largest indicator right now of whether rates can go lower. The current yield curve is considered flat. This means the difference between long-term rates and short-term is very small. On Friday May 29th, the difference between a 1 year Treasury (5.42%) and a 10 year Treasury Note (5.55%) was only .13%. In a normal yield curve, this would be closer to a full 1.00% difference. Most of the reason for this flatness is the acceptance that inflation is low. As mortgages are tied to the long-term rates, we need these rates to come down significantly for a significant decrease in mortgage rates. With a normal yield curve, this can happen without short-term rates having to come down. With the current curve, short-term rates would definitely have to go down for long-term rates to come down. Basically this means that the Fed would have to lower rates. With the current economy, this seems very unlikely. Asian concerns are about the only thing that are having a possible rate decrease influence. Right now these concerns do not seem strong enough.

In a nutshell, I feel that rates are going to do what they have been doing, and stay in a fairly stable range. The next major move for rates will most likely be up, and that could come some time later this year.

***Whatever!***

<i>Interest Rate Indexes as of May 29, 1998</i>	
<b>11th District Cost of Funds</b>	<b>4.917</b>
<b>6 Month LIBOR</b>	<b>5.868</b>
<b>Prime</b>	<b>8.500</b>
<b>6 Month CD</b>	<b>5.580</b>
<b>6 Month T-Bill</b>	<b>5.150</b>
<b>1 Year T-Bill</b>	<b>5.450</b>
<b>30 Year Treasury</b>	<b>5.780</b>

**I want to speak with your friends, family, postman, milkman, enemies, dog catcher, grocery clerk, friend from high school you haven't seen in 15 years, the guy that waves to you, that woman with the funny laugh, the fireman who got your cat out of a tree.....**

**The Point is I want *referrals*. As my business is almost 100% referral, I always appreciate your Recommendation and Endorsement.**

# Current sampling of Rates and Loan Programs

## *Fixed Rate Loan Programs*

Program	Rate	Max Loan	APR
30 Yr	6.875%	\$227,150	7.097%
15 yr	6.500%	\$227,150	6.710%
7/23	6.625%	\$227,150	6.836%
5/25	6.500%	\$227,150	6.717%
30 yr	7.125%	\$500,000+	7.283%
15 yr	6.875%	\$500,000+	7.030%
10/1	7.000%	\$500,000+	7.156%
7/1	6.375%	\$500,000+	6.526%
5/1	6.250%	\$500,000+	6.400%
3/1	6.125%	\$500,000+	6.273%

All rates quoted above are at 1 point. Loans are available with higher/lower points. Rates effective date of Newsletter. Please Call.

## *Adjustable and Other Programs*

- ◆ **NO RATIO and Quick Qualifier Loans available at 80%+ Loan To Value (No/ Low income documentation)**
- ◆ **Equitylines Available up to 125%+ of the property's value!**
- ◆ **Adjustables tied to 11th District Cost of Funds Index with Low initial rates and margins**
- ◆ **Bi-Weekly adjustables - Pay down principal faster**
- ◆ **Rental property loans with as little as 10% down**
- ◆ **B-C, "Hard Money" loans available (Tough properties, Poor credit, etc.)**
- ◆ **Purchases up to 100%+!!**

*Many options are available. First Security Loan Corporation represents 100's of lenders and loan programs. The above is just a sampling of what is available. Please give me a call for your specific case. We can do loans with higher points for a lower interest rate, or loans with a higher rate and lower costs. We can do Excellent credit to Poor credit. We can do loans on your primary residence or your rental. We can do loans on houses, condos, apartments, commercial buildings, etc. Rates do change daily, so please call for the most current*

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