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An Informational Newsletter produced and designed solely by

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Market and Economic News

Rates are up, Then they are down, Then.....?

Seems a little strange talking about interest rates, and where they are going, with all that is going on in the World! The discussions of what is better for rates, a long war or short war, seem a little out of place. Hoping for a bad day on the stock market, so someone can save .125% on their mortgage rate.....

Anyway, how does the war effect rates etc.? I guess it is really more of a question of how is the stock market effected. As has been for the last year, rate direction has really been determined by stock market activity. Stocks up = rates up and visa versa. There are limited investment funds out there. In a nutshell, if investors are buying stocks, they are selling bonds (prices go down and rates go up). If stocks are being sold, then investors are buying bonds (prices up and rates down).

For months leading up to the "war", stocks were selling off due to uncertainty of things to happen. When the "war" started, it looked to be a short event taking away uncertainty. But wait, things are not working as they seemed. It did not wrap up in three days.

Saddam did not throw in the white flag. So uncertainty is back. With uncertainty has come another sell off in the stock market. Another sell off has led to rates adjusting back down (They increased by as much as .50% the first week of the "war").

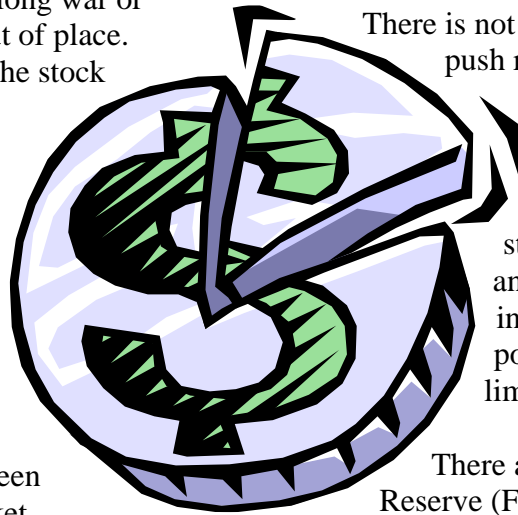
O.K., the Iraq conflict ends next week, now what?? Well, aside from what is happening in Iraq, the economic figures are still very weak. Inflation numbers are still very low.

There is not much, economically, to push rates up at this time. It is back to the stock market.

If the end of "uncertainty" brings back confidence in the stock market, we could see an increase in rates. Without inflation pressure, this possible increase can be limited.

There are talks about the Federal Reserve (Fed) doing another rate decrease. Concerns of the employment numbers have been discussed as a possible reason that the FED could make a move. Of course, a FED decrease is not a guarantee that mortgage rates will go down. For that matter it seems more often than not mortgage rates go up after a FED decrease.

Anyways, Rates are still great! Lenders, appraisers, title companies.....are all bogged down right now. Things are taking much longer to get through than they were a couple months ago. If you are thinking of doing something, you may want to get it in process soon.



Why Interest Only??

As home values and loan amounts go up, the Interest Only loan option has become more popular. There are different variations on the interest only options. Some are done as a monthly adjustable. The rate starts at a very low initial rate that can change monthly. Payments are interest only based on the adjustable rate. Other interest only options have the initial rate fixed for an initial time period (3, 5, or 7 years), and then the loan becomes an adjustable with full payments.

Depending on the loan size, the monthly payment savings can be significant.

One of the more popular Interest only options we are doing

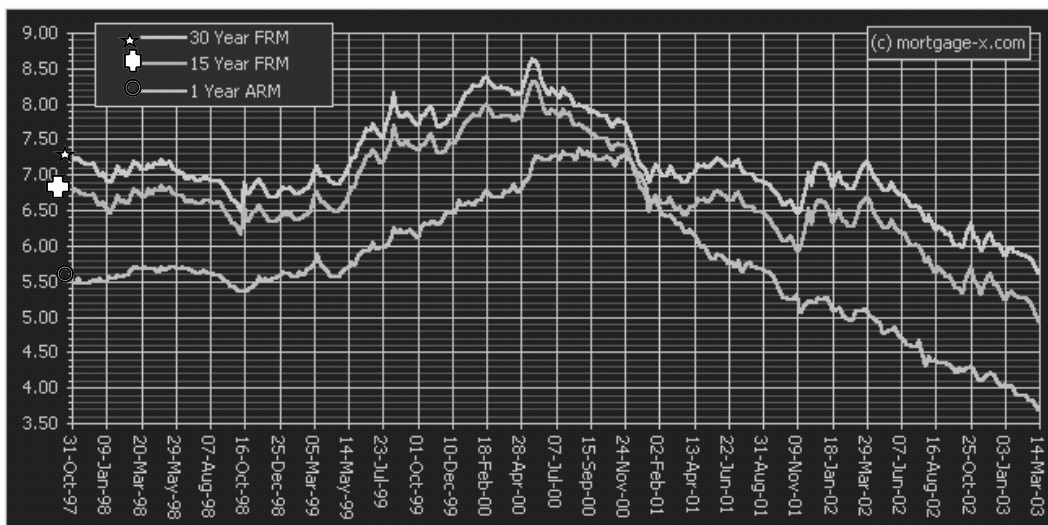
today, is fixed for 30 years, with the interest only option for the first 10 years. This loan is available on loan sizes up to \$1,500,000. The rates are very aggressive on this loan. For the first 10 years of the loan, the borrower has the option of making interest only payments. If principal is paid down, the minimum payment goes down. This works well for borrowers planning to make a significant loan pay down. After the initial 10 years, the loan is then amortized for the remaining 20 years at the fixed rate and based on the current balance.

What credit level am I and what difference does it make?

Much of the time when we are looking at a borrower's credit, we are trying to see where they fit into the

credit grading. Borrowers are still graded aside from the credit scores. Generally borrowers are put into "A", "A-", "B", "C", "D", or "Hard Money" (AKA Private Money).

"A" loans are the best priced but also the most picky. Generally, the rates you see quoted in the paper are "A" loans. You pretty much have to fit into the mold for this category. Credit needs to be good for the past two years. There needs to be some job stability, and down payment and closing costs are coming from standard sources (i.e. savings, gift, 401k).



"A-" borrowers are those who do not quite make the "A" category. They may have had a mortgage late, or there is some explainable credit problems that the "A"

lender will not listen to. The down payment may be coming from a unique source (i.e. employer, friend), or the property could be unique (i.e. dome). Many "A-" loans are done as adjustable rate mortgages. These are sometimes more favorable than doing a fixed rate loan with a premium added to the rate.

"B/C/D" (AKA Subprime) are borrowers that have had some recent credit problems. The more problems, the lower the grade. Pricing on these loans can get high. It is not uncommon to see a rate over 10% for a Subprime loan, but it should be understood that these borrowers need a solution to a problem. The lender is willing to make a loan and needs to charge for the additional risk.

"Hard Money" is when the borrower has had some recent credit problems, income may be hard to document, or the property may need some work. These are loans that a normal institutional lender will not make. The "Hard Money" lender is making the loan almost solely on the equity in the property.

Pricing on the loan is based on risk. These can get up to 14% and points can be up to 10+. Again, this loan is a solution to a problem.

Many times borrowers may fall into the lower categories of borrowing and get a loan. After a year or two they have bettered their credit and financial package, and can move up a grade or so. It is not uncommon for a "C" borrower to become an "A" borrower after a couple years. Moving up just one grade can make a significant difference in the interest rate and payment.

Some mortgage terms to know

I have previously covered different lending terms that may be confusing. Following are some more terms that you will commonly hear in the process of getting a home loan.

Deed of Trust/Mortgage: This is how your loan is secured to your property. The Deed of Trust and Mortgage are actually two different ways of securing the loan. California is a Deed of Trust state. Even though we talk about the Mortgage on your house or we call ourselves Mortgage Brokers, there are no mortgages in California. The Deed of Trust has three parties: the Trustee, Trustor, and the Beneficiary.

Deferred Interest/Negative Amortization: These terms generally apply to Adjustable Rate Mortgages (ARM's) that may have payment options that do not meet the interest due amount. The difference between the interest due and the payment made can be added to the loan amount. This option can be beneficial for some borrowers if treated right.

Impound account: This is when the lender collects other payments on top of the mortgage payment. These payments are generally property tax and hazard insurance. The lender collects a prorated amount with the normal Mortgage payments, and makes the payments when they are due. Some loans will require impounds, and sometimes the borrower prefers to have this option.

PITI (Pity): This represents Principal and Interest (the Mortgage payment), Taxes and Insurance.

PMI (Private Mortgage Insurance): It used to be standard to have mortgage insurance required if the down payment is less than 20%. PMI is an additional fee that protects the lender if the borrower defaults on the loan. Today we can combine first and second mortgages to eliminate the need for Mortgage Insurance.

Title Insurance: This is a policy issued by the Title Insurance Company to insure a home owner and lender against errors in the title to the property. County records are researched to determine the legal ownership of the property.

<i>Interest Rate Indexes as of March 25, 2003</i>	
11th District Cost of Funds	2.308
Prime	4.250
12 Month MTA	1.858
1 Month LIBOR	1.334
10 Year Treasury	3.902

Underwriting: When a lender receives a loan package, it goes to an underwriter. The underwriter reviews the package to see if it meets their loan guidelines. They give the approve or decline decision.

RULE OF THUMB: Generally a 1% spread in interest rate makes financial sense to look at to refinance. The make sense spread could be lower if current loan is an adjustable or intermediate fixed loan.

Do you know someone looking to: Purchase a home, Refinance their current home for a lower rate, Refinance for money to consolidate debt or do home improvements . . . Please have them call me or I would be happy to call them.

My Business is based on referrals and I always appreciate your recommendations.

Current Sampling of Rates and Loan Programs

Fixed Rate Loan Programs

Program	Rate	Max Loan	APR
30 Yr	5.500	\$322,700	5.671
15 yr	4.750	\$322,700	4.914
7/1	4.500	\$322,700	4.661
5/1	4.125	\$322,700	4.283
30 yr	5.625	\$500,000+	5.769
15 yr	5.000	\$500,000+	5.139
10/1	5.125	\$500,000+	5.265
7/1	4.875	\$500,000+	5.013
5/1	4.375	\$500,000+	4.509
3/1	3.625	\$500,000+	3.777

All rates quoted above are at 1 point. Loans are available with higher/lower points. Rates effective March 25, 2003 Please Call.

Adjustable and Other Programs

- ◆ **NO Document Loans**
- ◆ **Interest Only Loans**
- ◆ **Purchases/refinances up to 100%+!!**
- ◆ **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 low down**
- ◆ **B-C, "Hard Money" loans available (Tough properties, Poor credit, etc.)**
- ◆ **Lines of credit with No Lender Fees**
- ◆ **Many other programs available.**
- ◆ **Call for your specific needs!**

Many options are available. First Security Loan represents various 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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