

September 1, 2003

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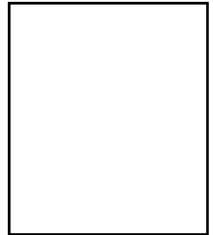
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## Market and Economic News

### We have seen the Bottom, but rates are still Great!!!

After a long streak of decreasing interest rates over the last couple of years, it looks like we have hit our bottom for this time. Ironically the end came after the Federal Reserve (FED) dropped their Fed funds rate another .25% on June 25th.

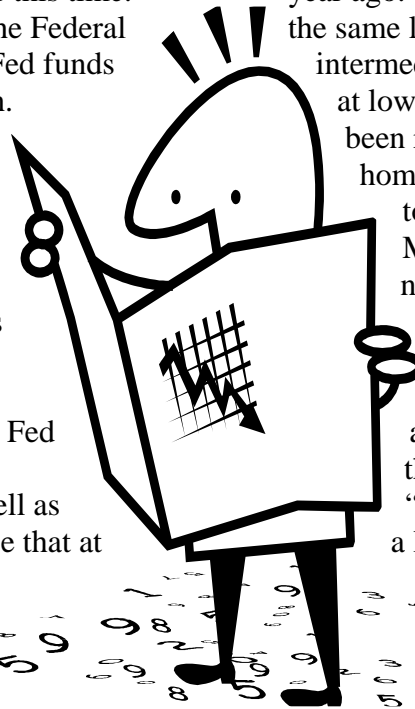
The record interest rate levels we saw were created in large part from the feeling that the FED may actually jump in and push down long-term rates due to concerns of Deflation (prices going down...). Bond investors were anticipating the Fed purchasing long term notes , pushing bond rates down as well as mortgage rates. There was hope that at the June FED meeting, the FED would reiterate their concerns of Deflation. There was also hope of a .50% decrease. Well the decrease was only .25%, and more importantly the statement after the decrease did not indicate an increased concern about Deflation. Rates have not been back to that point since.

Also having an effect on the interest rate market is an improving stock market, as well as signs of a growing economy. As there are limited investor funds out there, generally if

investors are buying stocks they are selling Bonds (Prices down rates up) and visa versa. The signs of a growing economy are slight but it is more up than down right now. Employment is still weak, but slightly improving.

That said, mortgage rates are still at great levels. Looking back a year.....we were talking about 40 year mortgage rate lows a year ago. Current mortgage rates are at the same level as a year ago, with the intermediates (3/1, 5/1, 7/1, and 10/1) at lower levels now. There have been reports stating that 50% of homeowners can benefit by today's current mortgage rates. Much of the discussions in the news media has been of "increasing rates" as if it were an ongoing trend. Rates have gone up, but is it an ongoing trend? I do not think so. I do not see the "bottom" appearing again for a long time, but I do not see rates jumping significantly any time soon. They could creep up a little more, but for significant changes we will need a booming economy with increasing inflation...Don't see either happening soon, but who knows..

I say if current rates look like they may make sense, jump on it. You can always call or e-mail me to run numbers to see how it looks.....



# Alternatives to the 30 year fixed rate loan

Despite what some people may think, the 30 year fixed rate loan is not the only loan option there is. For some, this option may be the only thing that will fit into their comfort level. The future could be too scary to take the risk of anything else. Education about other products available may alleviate the concerns of doing anything other than a 30 year fixed loan. As most people tend to do something with their loan (i.e. sell or refinance) about every 5-7 years, other loan options could make more sense. Following are some different options available in today's market that could help with different aspects of the loan process (i.e. qualifying, lower payments, etc.).

## **The 15 Year Fixed**

With rates at very low levels many homeowners have found they can convert from a 30 year fixed loan to a 15 year with very little change in payment. The amount of interest and payments saved over the life of the loan can be significant..

## **Intermediates or FIRMs**

These are adjustable rate loans that are fixed for an initial period (3,5,7,or 10 years). This loan is popular with the borrower who knows they will be doing something (refinance or sell) before the initial time period is up. The advantage of these loans is that the interest rate can be significantly lower than on a straight 30 year fixed rate loan. Currently the spread between the 30 year fixed and the Intermediates can be significant. The difference is currently over 1% for many of the Intermediates. The risk of this loan is if the borrower has it after the initial period, they will be subject to what rates are at that time. The loans do have caps, and are currently running either 5 or 6 over the initial rate.

## **Buydowns**

These loans are basically a 30 year fixed rate loan with a twist. The most popular of these is the 2-1 buydown. This is a 30 year fixed rate loan which has a lower rate for the first couple years. If the final fixed rate is 9.00%, the first year rate would be 7% and the second year would be 8%. Starting in year three, the rate for the remainder of the loan would be 9%. Basically this

is accomplished by paying additional points up front to subsidize the loan for two years. This can be paid by the seller or the lender. In today's market, forget about the seller paying anything. With the lender paid buydown, the final rate is higher than the current market rates. This loan can be advantageous for the borrower who needs lower payments initially as their income grows. This can also help with qualifying, as the borrower is usually qualified at the first year rate.

## **Adjustable Rate Mortgages (ARM's)**

In today's market, the rate spread between many ARM's and fixed rate loans, does not give much incentive to the borrower to go with the ARM. There are some that still make sense. If the borrower has a choice, a good index to go with is the 11th District Cost of Funds (There are some similar indexes that could also be beneficial). This is very slow moving, and less volatile than other indexes. ARM's give the borrower options. They are generally more lenient on qualifying, and the initial payments can be significantly lower (current initial rates are available below 2%). With some education and understanding, the ARM can be a valuable loan for the borrower.

## **Subprime/ "B-C" loans**

These loans are for the borrower and/or property that do not meet normal guidelines. Borrowers with recent credit problems may need a Subprime loan as a solution. Rates are higher on these loans, but they give the borrower an opportunity that they would not have otherwise. Whether it is too many late payments, collections, a Bankruptcy or a foreclosure, Subprime lenders may have a solution. Generally the worse the credit is, the higher the rate is.

## **100% Financing**

More and more lenders are coming out with loans with 0% down payment. These usually combine a first mortgage to 80% of the property's value and a second to 100% of the property's value. The rates on these programs are higher than a standard loan. For the borrower who has little for a down payment, or the borrower who would like to conserve their assets, these can be great deals. These are available as "stated income" with the right credit score and sellers are allowed to credit for non-recurring closing costs!

## **Other**

There are many other options to look at. The decision on which loan is the best comes down to many factors

such as; how long you plan to stay in the property, what your credit is, what your qualifications are..... Based on this information, we can figure out what the most beneficial option is for you. Of course, you may decide no matter what the "best" option is for you, you want a 30 year fixed rate loan...and that's fine too!

## The "Magic" Number!!

Many clients come to me wanting that "magic" interest rate.

One thing that I point out to clients is that an 1/8th in rate is only about \$20 per month on a \$250,000 loan. If someone is in a place where they can save a couple hundred dollars a month, but is waiting for the "perfect" rate, it actually ends up costing them. Every month waited is another month of paying that additional \$200.

Rather than have a Magic number to look for, you should look for the magic breakeven. At what point does the the savings pay for the costs in a reasonable time (i.e. 2-3 years). If pulling money out to consolidate debt, how much will you be saving monthly based on the current rate and how much will it cost you to wait.

It is nice to tell your neighbor you have a Great rate, but.....

## And now for something completely different...

A little something about me and what I do when I am not talking about rates etc...

I have been playing Racquetball since I was 11 years old. I played tournaments when I was a kid, and it has always been in some part of my life. I am currently an Advanced Certified Racquetball instructor. I have been the Junior Director at Petaluma Valley Athletic Club for the last few years. This year we had 11 of our kids go to the state junior championships. This was the most of any club in the state. My Saturday mornings are usually spent working with the kids on their game.

Next year I hope to be getting back into tournament play myself. Been sitting at my desk a little too much!!

Of course I do other things, but don't have room for that

right now. Maybe next issue I will discuss my hobby of memorizing all episodes of "Saved By The Bell". I can quote all of Screech's lines...Just Kidding!

<i>Interest Rate Indexes as of August 26, 2003</i>	
<b>11th District Cost of Funds</b>	<b>2.210</b>
<b>Prime</b>	<b>4.000</b>
<b>12 Month MTA</b>	<b>1.233</b>
<b>1 Month LIBOR</b>	<b>1.210</b>
<b>10 Year Treasury</b>	<b>4.410</b>

**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	6.000	\$322,700	6.176
15 yr	5.375	\$322,700	5.545
7/1	5.375	\$322,700	5.545
5/1	4.500	\$322,700	4.661
30 yr	6.125	\$500,000+	6.273
15 yr	5.375	\$500,000+	5.517
10/1	5.875	\$500,000+	6.021
7/1	5.500	\$500,000+	5.643
5/1	4.500	\$500,000+	4.635
3/1	4.125	\$500,000+	4.257

All rates quoted above are at 1 point. Loans are available with higher/lower points. Rates effective August 26, 2003 Please Call.

## Adjustable and Other Programs

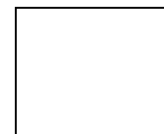
- ◆ **NO Document Loans**
- ◆ **Interest Only Loans**
- ◆ **Purchases/refinances up to 100%+!!**
- ◆ **Adjustables tied to 11th District Cost of Funds Index with Low initial rates and margins**
- ◆ **Bi-Weekly adjustables - Pay down principal faster**
- ◆ **Rental property loans with low down**
- ◆ **B-C, "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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