

RTC Mortgage Corporation



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2011 vs. 2012 in the Mortgage Market

We enter 2012 with a higher degree of optimism than the previous few years. Let's start the New Year by taking a look back at the major factors that shaped last year's mortgage market and discussing what's in store for 2012.

The Highlights of 2011:

Interest rates: Ranged from 4.86% near the beginning of the year to 3.99% at year-end according to the weekly Survey by Freddie Mac. The average for 2011 was 4.45% with 0.7 points. These rates are a national average of 30-year fixed rates offered by a sample of lenders for loan amounts of \$417,000 or less.

Lenders: The winners and losers have been decided. Many lenders exited the business or merged with others, and others have re-entered the market. In general, the big banks failed at providing customer service levels to satisfy their customers. At the same time, mortgage brokers, once given up for dead, have survived and their market share grew in volume by 33% from the low point of a few years ago. The market also saw an increase in the number of jumbo lenders where there once was none. Jumbo loans are readily available up to \$4 million or more to those that qualify.

Loan Programs: FHA loans gained in popularity due to their minimal required down payment of only 3.5% on loan amounts up to \$729,750. Conventional Adjustable Rate Loans became more available and many with interest-only options.

Underwriting: Guidelines have stabilized and the seemingly daily changes have ceased. Loan originators should know what to expect and be better able to advise their clients.

What to Expect in 2012:

Interest Rates: We begin the year with rates at an all-time low of 3.91% + 0.8 points according to Freddie Mac's survey. The mortgage industry's largest trade organization, the Mortgage Bankers Association of America (MBA) expects rates to average 4.3% this year (you can see the entire MBA forecast on my website: www.rtcmortgage.com). The Fed vows to keep the Federal Funds rate low through 2013 unless the economy heats up too much. On a negative note, borrows will pay for the 2-month extension of the Social Security Tax Cut approved by Congress to the tune of about a .125% increase in cost over the next ten years.

Lenders: I predict that Mortgage Brokers will continue to increase their market share as they can provide more efficient, local service; can typically originate loans at a lower cost than the big banks; have more resources to choose from as more wholesale lenders are entering the market; and recent licensing laws require brokers to have more stringent licensing guidelines and knowledge than their unlicensed counterparts at the big banks.

Loan Programs: Fannie Mae and Freddie Mac lowered the maximum conforming loan limit from \$729,750 to \$625,500 while FHA kept their limit at \$729,750 for the highest-priced markets such as Orange County. I expect FHA loans to be popular in filling that gap, although the higher cost of FHA mortgage insurance this year will force some to consider jumbo loans instead. Fortunately, more jumbo choices are available. The Government has also issued improved guidelines under their Home Affordable Refinance Program (known as HARP-2) which should enable more underwater homeowners to refinance and take advantage of lower interest rates.

Underwriting: The perception is that underwriting guidelines are too tight. While I don't expect to see a return to "no-doc" or "stated-income" loans any time soon, we no longer see the parade of changes that have made it impossible for loan originators to keep up. We should all now know what to expect and advise our clients accordingly.

The Most Important Factors to a Sustainable Recovery in Housing:

- Will the recent signs of positive data continue? At the turn of the year we have seen an improving trend in Employment data; an uptick in manufacturing; negligible inflation; an increase in home sales; and improved consumer sentiment.
- The severity and the impact of the European debt crisis is still unknown, but the financial markets seem to be reacting less to the related events.
- Politics and the outcome of the presidential and congressional elections will most likely have an impact. But, in which direction?
- Employment, in addition to housing is the key to recovery. Is the recent improvement in the Unemployment Rate an aberration or is it a trend that will continue?

Have home prices hit bottom? Many economists predict this year as the turning point where values stabilize and even increase moderately. Non-distressed home values are already showing signs of stabilization and distressed sales are accounting for a smaller percentage of overall sales in recent months. The shadow inventory of foreclosures and its impact on housing will continue to be a topic of debate. 2012 is shaping up to be an interesting year. Lets' hope it is the turning point for an overall improvement in the economy.



If you know anyone who is looking to buy, sell or refinance a home, please forward their name and telephone number to us. We will happily provide the same high level of service that we have provided to you. The greatest compliment you could possibly give us is the referral of your friends and family.

Your Trusted Mortgage Advisor with 36 years of Experience

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Are Underwriting Guidelines Too Strict? Or are Loan Originators Too Dumb?

It's been estimated that an average one-third of all home sales fall out. Mortgages being declined or unreasonable conditions of approval are where most real estate agents and borrowers place the blame. Is that blame fairly placed or are the Loan Originators to blame for not knowing the guidelines of the loans for which they were hired to originate? Read on for a different point of view.....

A few years ago when the mortgage and housing markets and the overall economy started to tumble, the underwriting guidelines were changing almost daily. Lenders couldn't keep up with all the changes made by Fannie Mae, Freddie Mac and FHA – the three housing agencies that are now part of our federal government and account for more than 90% of all mortgage money. Loan Originators, Processors & Underwriters were trying to figure out what could be approved, what should be declined and how to properly document a loan file.

However, more recently the guidelines have stabilized with relatively few changes in the past year or more. So, if the guidelines aren't changing any more, shouldn't we as loan originators be expected to know what can be approved and what shouldn't? And shouldn't we know what documentation is required to properly assemble a loan that will be approved when it reaches the underwriting department?

The mortgage process starts with the loan originator. And as the saying goes, "the buck stops here". A good loan originator should know by the completion of a loan application and immediate review of the borrower's income, assets and credit whether a loan can be approved. And he/she should also anticipate what documentation an underwriter will require without issuing a loan approval with a list of conditions a mile long.

Why Do So Many Loan Applications Get Rejected?

In today's mortgage climate where "no-doc" loans no longer exist, a loan originator should possess the following qualities:

- Knowledge of underwriting guidelines
- Expertise in knowing what documentation needs to go into a file and what doesn't
- Control of the file during the loan process

Knowledge and expertise come from experience. An experienced loan originator should know how to review and analyze the borrower's tax returns, credit report, and other financial information. If the originator merely takes the application and hands it off to a processor never to look at it again, that loan has a lower probability of being approved. The necessary loan documentation should be gathered from the borrower within the first few days and analyzed upon receipt. If it is, then there's no reason to be surprised by an underwriters request for more documentation and explanations later. A pro-active loan originator will have already identified the potential weaknesses in a file and addressed it long before it gets to the underwriter.

By keeping control of the file the loan originator can monitor the documentation as it is received. Constant review helps to identify a potential problem earlier in the process and allows time to request any additional documentation to overcome the issue. Larger companies that utilize centralized processing located in another part of the country (or in some cases in another country) lose the ability to monitor the file as it develops.

The loan originator in today's mortgage market needs to be more than just an order-taker. Knowledge, understanding, expertise and control of the file will all serve to mitigate problems that will otherwise arise in a later stage of the loan process. Too many loan files that are declined could have been easily approved if the loan officer had taken the time to review the file upfront; scrutinized the documentation; and, identified and addressed the concerns with the borrowers, loan processor or underwriter.

Relying only on an experienced knowledgeable, professional and local loan originator will help improve the likelihood of your loan closing on time and without any unnecessary surprises.

RTC Mortgage Corporation

Your Laguna Beach Mortgage Company
with a World of Resources

RESIDENTIAL LOANS:

- Conforming Loans to \$625,500
- Jumbo Loans to \$4M and more
- Conventional Loans
- FHA Loans
- Reverse Mortgages
- Fixed & Adjustable Rates
- Private Money/Hard Money Loans
- 1st & 2nd Mortgages

COMMERCIAL LOANS:

- 5+ Unit Multi-Family loans
- Office Buildings
- Mixed-Use Property
- Special Use Property

VISIT OUR WEBSITE:

- Homebuyers Handbook
- Credit Scoring Handbook
- Reverse Mortgage Handbook
- Re-prints of our most popular Newsletter Articles
- Payment Calculators
- Why You Should Work With A Certified Mortgage Planning Specialist
- On Line Loan Application
- Much More Information

WWW.RTCMORTGAGE.COM



Rick Cirelli is a 36-year veteran of the mortgage industry. He is the owner of RTC Mortgage Corporation, a full-service mortgage company based in Laguna Beach.

Rick is also Laguna's only Certified Mortgage Planning Specialist.

RTC Mortgage offers all types of Residential and Commercial real estate financing. Please don't hesitate to call Rick for expert mortgage advice and outstanding customer service.

Your Trusted Mortgage Advisor with 36 years of Experience