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QUARTERLY JOURNAL OF MORTGAGE INFORMATION

CB Investments MortgageInsider

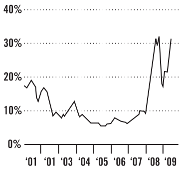
this issue

Industry Trends

FHA Popularity Surges

For the past year, FHA loan originations have skyrocketed as a percentage of overall originations (see graph inset). From a bank's perspective, they are much more willing to make loans that are insured by the Federal government (over 90% of all residential loans in 2009 are Federally insured by either FHA, Fannie Mae, or Freddie Mac- a staggering number; Mortgage Banker's Association).

Helping Hand
Federal Housing Adminstration share of total loan applications



Source: Mortgage Bankers Association

From a buyer's perspective, there are many advantages to FHA financing:

- Lowest down payment possible: Borrowers can put as little as 3.5% down, which can even be gifted or paid for through the 1st-time homebuyer tax credit.
- More lenient underwriting requirements: Borrowers with sub-par credit history can obtain loans they might not be able to obtain through conventional channels.
- FHA materially increased their maximum loan sizes to match Fannie/Freddie conventional standards, including the $729,750 max loan size in high-cost areas like California.

CB Investments is a fully-approved FHA lender. As such, when buyers come to us, we will always break down their prospective loan scenarios to compare FHA vs. conventional loan choices.

THE MORTGAGE REPORT

I hope you had an enjoyable summer and are settling back into your fall routine. I want to take a few minutes of your time to brief you on some important changes in the mortgage world. Furthermore, I want to dispel some common misperceptions that are being spread amongst the media.

Frustrated by bank delays?

If you read popular media reports, they would make you believe that it is very difficult for anyone to get a loan and if you are approved, it will take months to fund. This common misperception stems from the reluctance of many banks to lend these days and when they do, they are often caught up in a morass of internal red tape. We have had many clients referred to us this year after being hung up for months at other institutions after they submitted a loan application. Amongst the common complaints are that they were shuffled around to different people, calls weren't returned, and when calls were returned, they didn't have any real answers.

There is another way! At CB Investments, we still underwrite and are able to pre-approve loans within 48 hours, whereby you know your loan will fund barring any loss of employment or property valuation issue. From here, we consistently fund deals within 30 days. To accomplish this, we always promptly get back to our clients, vendors, and investors with thorough and well-researched answers, personally taking 100% accountability for results. While we still fund deals through the large banks, often we can obtain much better service and pricing from regional investors. These days, it is important for us to give careful consideration which investor to send each loan to, as it can cost crucial time and money if the wrong investor is chosen.

Best Regards,

Chris Brown

CB INVESTMENTS
"Real Estate Finance Specialists"

Loan Underwriting Changes

The biggest change that has occurred in residential lending is the absence in large part of stated income loans. Borrowers must now qualify with full income and asset documentation, typically with a debt-to-income (D-I) ratio under 45%. I have heard from a few of our recently referred clients how other institutions (including the large banks) were having trouble calculating income cash flows, sometimes delaying files for months or outright denying loan requests.

After personally having over 20 years of analyzing tax returns and income cash flow streams, I have the experience to calculate the most complicated of circumstances. This is a tremendous advantage to our clients these days, as there have been numerous deals that an underwriter initially declined a loan, only to eventually fund the deal after having educated them on the nuances of the loan. This is no easy feat, as there is often a reluctance on behalf of underwriters to change their initial assessment. I can say with confidence that no one in the industry will fight for their clients as much as we do for our clients. Let me also point out this isn't altruistic, as we have an aligned interest in that we don't get paid a penny unless your deal funds.

I also wanted to briefly point out that there are some very limited stated income programs, but with a minimum 30% equity (or down payment). We can sometimes go above a 45% D-I ratio if we have excellent compensating factors (excellent credit, equity in property, cash reserves, job stability, etc.).

This past year has seen a slew of new mortgage compliance-related laws and more are being proposed. They are known by an assortment of catchy acronyms (HVCC, MDIA, HERA, NMLS to name a few). The ironic part of it is they are almost exclusively aimed at the small businesses in the industry (independent mortgage brokers and appraisers), while excluding the major perpetrators of this housing downfall- Wall Street, Fannie/Freddie, national banks, credit reporting agencies, and the past policies of the Federal government itself. As often happens, the pendulum has swung from easy money to excessively tight lending. Unfortunately, this maze of new, often redundant compliance requirements has caused major obstacles to many prospective borrowers. Furthermore, at least one of the laws, HVCC, will most likely have the effect of stalling a housing recovery (please go to our website to read more on this).

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LOAN PROGRAMS

Going, Going...

Loan program choices have been greatly reduced over the past couple of years, which is a double-edged sword. Gone are subprime mortgages and the Option ARM program, which are good things (over the past several years, I have repeatedly blasted this careless lending, often to be rebuked by some very high-ranking folks at big banks). On the other hand, jumbo financing and 2nd mortgages options (including equity lines) have dwindled, which has proven very troublesome to our housing market and overall economy.

Since August 3, 2007, when private securitization (excluding Fannie/Freddie, who are not private anymore) largely ceased, residential lending has had a material shift to almost entirely conforming loan production. This is because the Federal government, through their stewardship of Fannie/Freddie, is essentially buying all the conforming loans.

The conforming loan limit in most areas is $417,000. However, the government has divided the country into metropolitan statistical areas (MSA's), accounting for differences in average home prices amongst these MSA's. In Orange & Los Angeles counties, as well as other high cost areas around the country, there is a new "high balance conforming" limit of $729,750. It is important to remember that these "high balance" loans between $417,000 to $729,750 carry an interest rate premium, typically 0.25-0.5% higher. Furthermore, this program is set to expire December 1, 2009, but expect the government to extend this, as they need to continue to stimulate the economy.

As far as conforming loan programs, it is essentially all 30 and 15-year fixed. While the hybrid programs (3, 5, 7, & 10 year fixed, amortized over 30) are still available, they are usually priced worse than the 30-year fixed, so of course no rational borrower would opt for it. The lack of these programs is unfortunate because they make sense for many borrowers who know they will not own the property that long and could use the typical discount vs. a 30-year fixed.

True jumbo loans are starting to slowly become more available. Because of the absence of jumbo loan securitization, most jumbo loans the past couple of years are adjustable rate mortgages (ARM's) with the 5-year fixed (then adjustable for the remaining 25 years) being the most popular. Just recently, however, we have seen some better-priced 30-year fixed jumbo loans. One key difference with any jumbo loan these days: 20% minimum down payment (or equity, if refinance).

"Just recently, we have seen some better-priced 30-year fixed jumbo loans"

Home equity loans have also severely been affected, with most banks completely getting out of this business. The few investors that still offer them now only go to a 75% maximum loan-to-value. One other note here that I have made repeatedly the last couple of years; that is, banks are continuing to "freeze" equity lines (i.e. allow no more borrowing), so if you think you may need the cash in the short-term, you may want to consider pulling it out and putting it in a conservative cash account.

MORTGAGE RATE ALERT

Mortgage rates have held relatively steady throughout the year in the 5% range, due to the Fed's consistent purchases of Fannie/ Freddie (agency) mortgage-backed securities, as well as their direct purchase of US Treasury bonds. The latter program will be ending in October, but the larger mortgage purchase program should keep rates relatively low for the remainder of the year. With that said, expect rates to move up slightly (0.25-0.5%) by year-end as the economy shows more signs of life and natural market forces take over. The Fed has also recently said as the economy improves, they may not need to use their entire allotment of $1.25 trillion to buy mortgages (to date, they have used $825 million); personally, I believe without the current government subsidization of rates, rates would swing up materially and abruptly. If you haven't taken advantage of these rates, the time to do so is NOW, as rates will probably never be this low again in the foreseeable future.

As always, if you want an in-depth analysis of your mortgage situation vs. current mortgage rates, please call us.

The CB Investments' Advantage

- **SUCCESSFUL FUNDINGS**

Approach your next purchase or refinance transaction with peace of mind, knowing an experienced professional with aligned interests is representing you. We realize our clients are very busy with their own lives and careers; thus, we strive to make the lending process simple and transparent to you. It is our job is to take care of the daily details and intricacies of the loan, communicating regularly with our investors and vendors to assure a smooth transaction.

- **BEST RATE & TERMS**

After listening intently to our clients' wishes, we try to provide tailored loan options to meet each client's unique circumstances. Once we decide upon a loan program, we hone in on the ideal time to lock in the rate and terms. With 18 years of experience watching and monitoring mortgage markets daily, our expertise can have a material impact on your bottom line.

- **POST-CLOSING LOAN MONITORING**

After your loan closes, we track your specific loan terms vs. current market conditions, always looking for opportunities to improve your situation. Being a boutique firm totally focused on customer service, we have the capabilities to do this for every one of our clients.

www.cbinvestments.com

Testimonials

While we could supply many more testimonials, here are a few recent comments:

Fantastic- Thank you for your great work!

Paul & Suzie Nelson

The new home is wonderful, we LOVE it! Thanks so much for all your help and patience. As always, you were wonderful and if you ever need any references, feel free to send people our way. We have nothing but wonderful things to say.

Judy & Doug Cook

I was totally surprised by the "Refinance Closing Package" that you sent me at the end of our recent transaction. Having financed homes many times before, there has never been such a complete, concise accumulation of all the relevant documents as you sent me in this package. In addition to your professional recap of this important investment, Debi has personally helped me during this process to monitor interest rates looking for the most opportune time to lock, collect and deliver all the necessary docs, select the best strategy for points-payment-rate options, and always with a positive friendly attitude. It was a pleasure doing business with you. Count on me to refer my friends to your business in the future.

Ron Willis

Chris, I could not be more pleased with the service I have received from your firm.

Ernie Park

Referrals

At CB Investments, we offer a full array of real estate and real estate finance services. We welcome the opportunity to put our experience and work ethic to work for you and any referrals you may have.

Q & A

Q: When are the temporary "high balance" conforming loan products and the 1st-time homebuyer tax credit expiring?

A: Officially, the "high balance" conforming loan products, which allow up to $729,750 loan sizes in high cost areas like California, are set to expire on December 1, 2009. However, I would almost surely expect Congress to extend this date well into next year to continue to try to stimulate the economy. For those of you that have loan scenarios between $417-729k, this is a huge benefit vs. current true jumbo rates.

The 1st-time homebuyer tax credit, which allows up to an $8000 Federal tax credit, is also set to expire on December 1, 2009. While insiders are mixed as to whether Congress will extend this, as it didn't quite provide the stimulus bang they expected, I would bet they will continue it at least into the first half of 2010. It is also important to note that "1st-time homebuyer credit" is a little misleading, as this credit is also available for any borrower who has not purchased in the past three years.

Email your questions to:
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