

Aaron's Mortgage Minute

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Mortgage Markets Pass the Tipping Point: Are Rates Up for Good?

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What an end to last week...and not in a good way from an interest rate standpoint!

This last Thursday, shortly after the markets closed, the Federal Reserve announced a 25 basis point increase to the Discount Rate. The Discount Rate is now 0.750%. Mortgage markets are selling off on the news.

The Era of Low Mortgage Rates may be officially over.

For some context, it's important to understand what the Fed's Discount Rate is and, more specifically, what it isn't.

The Discount Rate is the interest rate that the Federal Reserve charges to banks when banks borrow money from it. Banks typically borrow money from the Fed to beef up their cash reserves because all banks are required to keep as minimum level of cash-on-hand.

The Discount Rate is *not* the rate at which banks borrow money from each other -- that's the Fed Funds Rate. Nor is the Discount Rate the benchmark rate at which banks lend money to consumers and businesses -- that's Prime Rate.

Discount Rate is just one of the Fed's many tools to slow or speed the economy and, as of last week, it's taking steps to slow growth down. Or, at least, push some responsibility back to banks. There's no direct impact on consumers for a move like this, but it's the *indirect* impact we need to worry about.

In raising the Discount Rate, the Fed implies that the U.S. is strong enough to withstand a shock. It's the signal for which Wall Street has been waiting.

Story Continues on Page 4

You Want to Make Your Listings More Appealing?

How many of you who have their homes on the market want to sell your home quicker? How many Realtors want to attract more buyers to their listings?

Answer to both questions is of course—**EVERYONE!**

Would everyone agree that one of the biggest contributors to the US Economy is Consumer Confidence? Whether it is a house, a car, or a TV if a consumer doesn't feel confident about his/her job or finances, they are not going to buy.

Well, In this edition of my newsletter, I want to tell you about a program called

"The Rainy Day Foundation's HELP program and Mortgage Protection Plan" that just might give more buyers the confidence they need to make that move and buy that new house.

Let me explain further...Story continues on Page 2

February 2010 Edition

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Why You Shouldn't Close a Credit Card Account When You Pay the Balance to \$0.00

It happens a lot. After feeling overwhelmed with credit card debt, a person *finally* pays their accounts down to a \$0.00 in hopes of improving their credit and their cash flow.

Then, the client calls his creditor and cancels his credit card account. This is a fatal credit scoring mistake.

In our Culture of Consumption, it may seem strange that to cancel a credit card could send your credit score plummeting; it's pretty well known that many people live beyond their means using credit cards.

For as many people that use credit cards for consumption, there are many more that use credit cards for emergencies. These types of debtors maintain a very low balances and have large available credit lines upon which to draw in the event of emergency.

Emergencies come in many forms:

- Job loss
- Death
- Illness
- Divorce

And having a "cushion" in the case of an emergency can help a person stay solvent in a time of crisis.

Let's think like a mortgage lender for a moment. The relative size of a cushion like this is pretty important to lenders because if things hit the fan, a homeowner with a lot of available credit can still stay current on his mortgage.

You can bet the lenders care that credit lines are big! Is it any wonder that 30 percent of your credit score is tied to the cushion?

Utilization of credit is measured by the ratio of (total credit used) to (total credit available). If a person has 5 credit cards, each with \$5,000 in available

credit, the total credit available is \$25,000.

Now, if that person carries a \$1,000 on each of the five card, the total credit used is \$5,000 and the total credit utilization is $(\$5,000)/(\$25,000)$, or 20%. This is considered to be a strong ratio for credit scoring purposes. An ideal ratio is 35% or less.

For every card cancelled, though, the available credit decreases, pushing the utilization ratio higher. Closing one card changes the math to $(\$5,000)/(\$20,000)$, or 25%. Closing two pushes it to 33 percent. Closing *three* makes it 50 percent.

When you're done with a credit card, don't close it out. Instead, use it sparingly. Maybe buy a tank of gas once a month, or a pack of gum or something. That way, the credit card company will continue to report that you're active, and your utilization ratio can remain as low as possible.

Make Your Listings More Appealing... (cont)?

The HELP (Homeowner Education and Loan Protection) Program and Mortgage Protection Plan protects the home owner in case of involuntary job loss (More buyer confidence right?) If the buyer loses their job in the coverage period (2 yrs), the policy may make up to 6 months worth of mtg payments.

How is it paid for? The program is paid for in 1 of 2 ways:

- 1) By the seller
- 2) By the agent

The program is only available on USDA, FHA and VA loans.

It can not be utilized on Conventional loans at this time. AND if utilized, the money does not have to be paid back by the homeowner.

The website is <http://helpprogram.org/>

Please go out and check it out. It really could be the determining factor to help push a buyer your way when trying to decide which home to buy.

In this economy, now more than ever,

buyers need to get as comfortable as humanly possible (and rightfully so) that the decision they are making is the right one for their family.

Having this program on your listing as that little comfort reminder to protect from unplanned job loss can make all the difference.

I would be happy to help assist you and your clients with looking into this program further. Please call me at 812.477.8000 to schedule an apt.

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That Upcoming ARM Adjustment Might Not Be As Bad As You Think....For Now!

ARM-holding homeowners tend to panic when their mortgage gets set to adjust; the feeling of "I better do something fast!"

If that's you right now -- if you have a conventional ARM getting set to adjust -- just relax. Math is on your side. The smart move may be to let it adjust.

Your mortgage rate could fall to as low as 3.125 percent.

It's all because of how ARMs work.

1. For some fixed period of time, the mortgage rate stays constant
2. When the fixed time period ends, the mortgage rate adjusts to a new rate based on a preset formula
3. Every 12 months thereafter, the mortgage rate re-adjusts against the same formula

The formula by which ARMs adjust is as follows:

ARM = Some Variable + Some Constant.

And what are the "variable" and the "constant"? It depends on your mortgage, really, but if your home loan is making its first adjustment in 2010, the chances are very good that your ARM is structured as follows:

- The variable is the 12-month LIBOR -- currently near .85 percent.

The constant is 2.250 percent

This has been the default conven-

Your Upcoming ARM Adjustment May Not Be So Terrible After All



Data: Mortgage-x.com

Assumptions: Conventional Freddie Mac mortgage using 12-month LIBOR as the index and with a margin of 2.25%.

tional ARM setup since mid-2005 and so long as the 12-month LIBOR remains low, so should your mortgage rate.

But therein lies the rub. LIBOR won't be low forever.

Historically, LIBOR rates track very closely with the Fed Funds Rate and when the Fed starts to raise the Fed Funds Rate, LIBOR is going to rise, too. It's unclear when that will happen exactly, but LIBOR tends to rise ahead of actual Fed action.

Therefore, we can expect the 12-month LIBOR to rise well before the Fed raises the Fed Funds Rate. Maybe by a little and maybe by a lot. Either way, ARMs won't be adjusting lower much beyond Q1 2010.

Oh, and by the way, Fed Chairman Ben Bernanke has started laying the groundwork for such a move just last week. The writing is on the wall.

If you pass on the refinance this year, know that ARMs adjust annu-

ally so you'll face the same "Should I Refinance My ARM?" question in 2011. Should LIBOR return to its historical 5 percent average by then, you can be sure your next adjustment will be up.

In other words, it may be wise to let your mortgage adjust in 2010, but foolish for 2011 and beyond.

So, if your ARM is adjusting and you want to know whether it's better to refinance or to just let the adjustment occur, email me directly and we can talk about making a plan.

LIBOR can change suddenly so what makes sense for you *today* might not make sense on the date of actual adjustment. Having a plan, therefore -- with contingencies in place -- is the best way to manage your ARM.

Call or email anytime. I'm looking forward to it.

Are Rates Up for Good? (Continued...)

See, since late-2008, 30-year fixed mortgage rates have moved within a very tight range. With few exceptions, never more than 5.5% and never less than 4.5%. This was because the bond markets harbored doubt about whether the "green shoots" of the economy were for real. Yesterday, the Fed answered that "Are We?" and "Aren't We?" question.

Clearly, we are. And that brings us to the science experiment.

Much like a super-saturated solution, the mortgage-backed bond market has been in precarious balance, one crystal away from

complete transformation. Well, Thursday, February 18, 2010, the Fed introduced that crystal. Loan officers everywhere will forever remember 2/18/10 as the Last Day of Record Low Mortgage Rates.

The Federal Reserve won't make policy changes over the next few weeks, months, or maybe even quarters, but the damage is done. Bond markets are played 12-18 months into the future and the Fed's move to raise the Discount Rate has traders to change their expectations what's coming down the pipe.

Mortgage rates will rise in re-

sponse.

So, what does this all mean? I'll tell you.

If you're in the process of shopping for a mortgage or buying a home, the longer you wait to commit, the higher your mortgage rate will likely be. Call or send me an email and I will send you a rate quote based on what the market is doing today.

Rates are changing *very* quickly and every day counts. Call me at 812.477.8000 today!

FHA Guideline Changes (the quick version)

Just as an FYI to all of you potential homebuyers/sellers/and Realtors out there, please take a quick note of these guideline changes taking effect here very soon on all FHA loans.

As of April 5, 2010: the following changes can be expected on all FHA

Production.

Up-Front Mortgage Insurance:

Today: 1.75%
4/5/2010: 2.25%

Seller Paid Closing Costs Allowed:

Today: 6%
4/5/2010: 3% Max

Please take note of these changes as they will have a large impact on those transactions originated after April 5th. As always, call or email me with questions regarding guideline changes, etc. My office # is 812.477.8000.

Words to Live By...

Lucky You — a bonus quote in each (I just couldn't narrow it down!)

Motivational Quote...

"Discipline is learning how to say no to yourself." ~ Raymond C. Nolan

"If you learn from defeat, you haven't really lost." ~Zig Zigglar



And Just One for Fun...

"Valentine's Day is when a lot of married women are reminded of what a poor shot Cupid really is." ~Unknown

"If love is blind, why is lingerie so popular?" ~Unknown

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Gift Certificate

This certificate entitles an applicant(s) to a \$250 Visa Gift Card. All loans must be Originated, Closed and Funded by Aaron Cashmer on or before February 28, 2010

Expires 2/28/10—Not Valid on Applications Taken Prior to Jan 1, 2010

This offer is not endorsed by Mortgage Masters of Indiana and is not offered

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Mortgage Masters
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AARON M. CASHMER : ABOUT ME

I have been in the Mortgage Industry since 2002 where I began my career, while a junior at Purdue University, with an Internship at Household Finance as a RE Underwriter for the Northeast and Midwest areas of Household's Branch Network.

Upon my graduation from Purdue, I moved to Evansville, Indiana to marry my college sweetheart, Carrie and started my career with American General Finance in their Mortgage Operations Dept. I spent 3 yrs as a Loan Originator there and was then promoted to a Team Lead in 2006.

In my 5+ years on the Origination side

of the Mortgage Industry, I have originated over \$87 million in volume and assisted more than 435 clients in realizing savings through refinance transactions as well as helping numerous families realize the dream of home ownership.

I currently reside in Evansville with my wife Carrie and two kids, Kate (3) and Carson (1). Oh yeah and our dog Otis, how could I forget!

I enjoy all sports, especially football (NFL, NCAA and fantasy football), basketball and golf and love the Chicago Bears and Chicago Cubs.

