



Special Report

Update: Is there yet another wave to this financial meltdown?: *by Mitch Kossar, Broker, CIG Realty and Loans*

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- Higher borrowing costs for the agencies mean higher borrowing costs for us
- Even the impenetrable good neighborhoods in San Francisco have shown price weaknesses in July

Dear Friends and Past/Prospective Clients:

Is there yet another wave to this financial meltdown?

The news has been so crazy and rates have been so volatile the last couple of years it's hard to tell the random blips from the big shifts. There was a nice time to refinance last month, and now rates are high once again and yet another big bank (Indymac) collapsed. Is this a shift or a blip?

It is probably a shift. It's hard not to notice Freddie and Fannie Mac collapse and imminent bail out in the news today. How does it impact us directly?

Fannie and Freddie's troubles are clearly behind the recent increase in conforming rates. The way to see this is to look at the yield spread between bonds the agencies sell (that are backed by mortgages) vs. the 10 year treasury, the risk free equivalent rate.

- Before the crisis started last April, these bonds paid only 25 basis points over treasury, implying safety and a government guarantee
- Since then they doubled to 50 basis points (1/2 percent) and sometimes more for short periods of times.

Just recently they are now reaching 1 percent – showing real fear about their quality and the implicit government guarantee.

Higher borrowing costs for the agencies mean higher borrowing costs for us. And the other loans (jumbo, agency, etc) all tend to follow the base agency pricing. So does that mean rates are down for good? If the government does not do anything, it could mean much worse than that, but it looks like intervention is likely. Their stockholders will be wiped out, but bond holders will be protected. A government bail out may bring their borrowing costs down and with it our mort-

gage rates. But when the government gets involved, nothing is certain.

So do not hold your breath. At some point, the government may run out of tricks. There are huge inflationary pressures that can push the underlying 10 year treasuries and at some point even the federal government can hit its limit in what it can do.

If rates come down again, and you are thinking of waiting some more, our advice is "don't", strike when you can. If you are thinking about entering the market as a real estate buyer, note we will likely be in a protracted bear market. Even the impenetrable good neighborhoods in San Francisco have shown price weaknesses in July. So look for deals, and when you find them, **act**, we really do not know how things will play out. and the long term outlook for Bay Area Real Estate, the financial system, and the United States is still incredible. Fortunes are made during times like these.



Other News:

There is a big FHA bill pushing through Congress and some regulations going through the Fed. The results may make the Agency Jumbo loan permanent. Good news for Bay Area residents. There is an argument, however, whether the maximum will be 729,000 or 625,000 dollars.