



Special Report

Update: **When to refinance in uncertain times:** *by Mitch Kossar, Broker, CIG Realty and Loans*

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- Traditional jumbo loans are still difficult to finance ...
- Unless there is serious government intervention we are looking at years not months before there is a reasonable narrowing in the spread between jumbo and conforming loans.

Dear Friends and Past/Prospective Clients:

When to refinance in uncertain times

Last month we discussed how Fannie Mae and Freddie Mac are finally giving in a bit on agency jumbo loans and the promises of the Stimulus legislation were coming to fruition. It was a great opportunity to refinance.

What a difference a month makes. Now the window appears to be closing. Fannie Mae and Freddie Mac's troubles are escalating and their ability to purchase loans is diminishing. In the meantime, continuing inflation fears combined with recession fears renew images of 70s stagflation so the 10 year treasuries have increased as well to 4.2% from around 3.6% a month or so ago. In essence all spreads are increasing. 10 year treasuries are up, Fannie Mae conforming loans are up, agency jumbo loans are up, jumbos are up.

Traditional jumbo loans are still difficult to finance - with the sole exception being full documentation borrowers with 25% equity, high FICOs and a willingness to do ARMS rather than fixed rates. For those borrowers, there are a few niche portfolio products available. For how long? It is not certain.

Last month some of our clients wanted to wait and see if rates would come down some more before refinancing, now this is looking less likely - at least in the short term. Does this mean that rates will not come down again, and there will not be another chance to lock in low rates (either for agency jumbo or conforming loans). It is hard to say. The economic direction of our country is not clear, we are in a close election cycle, there are massive inflationary pressures on our economy, the financial system's mess has yet to hit bottom, real estate may or may not be bottoming out, yet manufacturing appears to be doing well. In other words we are in a time of uncertainty.

The best thing to do in such a situation is refinance as soon as you can if there is an economic benefit. If rates come down, it is not that hard to refinance again without out of pocket expenses. One is about as likely to time the mortgage market as time the stock market, so strike when the iron is hot. If rates dip, and we have another go around before the end of the year (and supposedly the end of the "agency jumbo" loan), we definitely recommend refinancing when you can. Our bet is that there will be a second chance for those with loans under \$730,000 to try again.

In longer term picture, we still do not see a renewal of the traditional private secondary markets. The financial system is still in complete disarray. At this point, unless there is serious government intervention (which could be possible with a Democratic sweep in November), we are looking at years not months before there is a reasonable narrowing in the spread between jumbo and conforming loans.



Next month, we are going to switch gears and emphasize real estate markets vs. lending markets. Many clients are asking about REOs, foreclosures, and short sales and there is a lot of disinformation out there - particularly concerning foreclosures. Our colleagues in the central valley are telling us that the bottom finally hit, and there may be opportunities for real investors to enter the market fairly soon - and REOs, foreclosures, and short sales are often the norm in those markets.