



Special Report

Update: **A Relief in Rates:** by Mitch Kossar, Broker, CIG Realty and Loans

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- "there are now agency jumbo loans where you can cash out and where you can subordinate your second loan up to an 85% combined loan to value"
- "once again, rates for ARMs (3, 5 or 7 years) are much cheaper than fixed rates"

Dear Friends and Past/Prospective Clients:

Finally, a break on "Agency Jumbo" loans!

Several months ago, we discussed the impact of the Economic Stimulus package on Bay Area residents with first liens between 417,000 and 730,000 dollars (newly dubbed "Agency Jumbo"). Most of that newsletter is still accurate (ask for a copy or look at our website at www.cigcorp.net to see it), but since then, there have been two exciting developments:

✦ In March, we discussed the possibility that it will take time for the savings to pass through to consumers. And it did. Until recently, Agency Jumbos were almost a point higher than conventional (but still way below Jumbo). Now they are almost at parity, so now full documentation borrowers can get a \$730,000 30 year fixed loan for 6.125%. The 30 year Jumbo was stuck at 6.375 to 6.625% for about two years before the Jumbo mortgage collapsed in August so it's a great opportunity for lots of people in that bracket to refinance.

Since our last newsletter, there are now agency jumbo loans where you can cash out and where you can subordinate your second loan up to an 85% combined loan to value. For those that did only 10% down for purchases in the last two years, it may still be difficult to refinance.

ARMs are back? If you qualify...

For about a year or so the yield curve has been flat; that is, short term rates have been similar to long term rates. As the Fed dropped the short term rates drastically, bending the curve again. So, once again, rates for ARMs (3, 5 or 7 years) are much cheaper than fixed rates:

✦ For those with true jumbo loans and "perfect scenarios", the 5/1 and 7/1 ARMs are at a reasonable range of 5.75% to 6.5%.

Conforming pricing is very good right now with 5/1 ARMs periodically dipping below

5% and fixed mortgages below 6%. 3/1 ARMs are even cheaper.

Rates are low; risk of inflation is high.; Should I lock in for the long term?

With huge deficits, a possible recession looming, \$130/bbl. oil before the summer months, a global food crisis and credit shrinking, surely inflation is coming around the corner. Is now the right time to lock in a 30 year fixed?

The answer depends on one's tolerance for risk. Certainly it is likely inflation can come back and with it rates, so at some point in the next 24 months it would be a good time to fix a 30 year loan. However, there is time, and things change, so the cheap ARMs can be quite tempting if you a) have a tolerance for risk b) feel comfortable with multiple no-cost refinancing in the coming months. There is plenty of time: the spread between the 10 year treasury and the conventional 30 year fixed mortgage is at a massive 250 basis points (compared to historically normal



spread of about 100 to 150 basis points). Even if inflation pushes long term rates up, there is a lot of room for the premium on mortgages to narrow. The wildcard is the continuing liquidity crisis in the secondary markets and the financial system breakdown – which although not at crisis mode – is still a mess.

For those that just want to refinance and get it over with, now is a great time to do the 30 year fixed, if rates go down, you can always refinance again, but you are paying a premium.