



Steve Arthur
Federated Mortgage
NexTier Bank
412.390.3530 x108
877.533.2784 x108
412.298.2748 Cell
sarthur@fedmc.com

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Steve Arthur's... *Monthly Newsletter!*

Insider Tips for Healthy, Wealthy, & Happy Living.....

Current State of Mortgage Financing...What's Going On?

by Barry Habib and Sue Woodard

We're living through very historic times in the mortgage industry - times that people will refer back to for decades to come. And in recent weeks, there has been increasing angst and consternation over the state of our industry. One of the larger lenders in the US, American Home Mortgage, was recently forced to shut down operations. But... why? What is happening, what does this mean and where are things headed next? Let's take a look at what is happening together, so that you really understand the truth behind the headlines, and more importantly - understand what you should do right now.

Over the past several years, you know that many loans were made to homeowners with somewhat non-traditional or "non-conforming" situations, be it a poor credit history, inability to document income, or any number of factors that do not fit within the traditional "box" for home loans. These loans are often called "Sub-Prime", or "Alt-A", meaning that they are somewhat riskier in nature than "A" credit, prime, or traditional loans. There were also many adjustable rate loans done that were considered somewhat "exotic" - that may well have an ideal client that they are suited for, but may have been sold to many others that did not fully understand what they were getting.

As you also probably know, another type of "non-conforming" home loan is one where the credit and income might be perfectly fine, but the loan amount is higher than \$417K, which is the current maximum loan that can be done using pools of money from mortgage giants Fannie Mae (FNMA) and Freddie Mac (FHLMC). If the loan amount is higher, it can certainly be done - this is of course a "jumbo loan" - but the end money comes from private institutions, not from the large government sponsored entities of Fannie and Freddie.

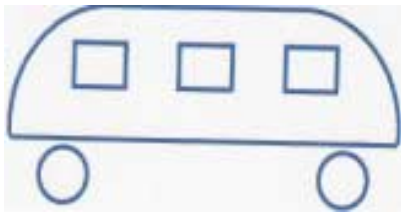
Most non-conforming loan product rates popped significantly higher, almost overnight. Here's what happened.

.....continued on page 2

Brain Teaser of the Month:

I already knew I was dumber than the fifth graders, now it's the preschoolers turn!?!?
A PRE-SCHOOL TEST FOR YOU !!!

Which way is the bus below traveling?



To the left or to the right?

.....answer on page 4

Five Words With Two Meanings:

- 1. THINGY (thing-ee) n.
Female..... Any part under a car's hood.
Male.... The strap fastener on a woman's bra.
- 2. VULNERABLE (vul-ne-ra-bel) adj.
Female.... Fully opening up one's self emotionally to another.
Male.... Playing football without a cup.
- 3. COMMUNICATION (ko-myoo-ni-kay-shon) n.
Female... The open sharing of thoughts and feelings with one's partner.
Male... Leaving a note before taking off on a fishing trip with the boys.
- 4. COMMITMENT (ko-mit-ment) n.
Female... A desire to get married and raise a family.
Male..... Trying not to hit on other women while out with this one.
- 5. ENTERTAINMENT (en-ter-tayn-ment) n.
Female.... A good movie, concert, play or book.
Male..... Anything that can be done while drinking beer.

.....continued from page 1

The end investor for Subprime or Alt-A loans will charge a premium for taking on a pool of these loans, because they know that traditionally, they might have a higher rate of default and delinquent payments within that risky pool. But lately, default and foreclosure has been on the rise - partly due to the fact that with credit tightening and a soft real estate market, many troubled homeowners are unable to refinance or sell in order to get out of trouble. So now, these end institutions are demanding a much higher "risk premium" for taking on these pools of loans, as they see the rates of default are climbing higher.

But since these institutions are purchasing these pools of loans sometimes months after the borrower has actually closed at a given rate, this increase to the risk premium means that instead of paying \$101K for a \$100K loan that will bear interest, they may only be willing to pay \$95K for that \$100K mortgage to account for the risk. Multiply that times thousands upon thousands of loans...and you have millions upon millions of dollars in loss for the company trying to sell the pool at a much lower price than they were expecting. This is called a "liquidity crisis", and is exactly what happened to American Home Mortgage - there was no mismanagement, but they simply got caught holding too many "hot potato" loans, forced to sell them at massive losses...and eventually they had to make the decision to close the doors and stop the bleeding.

Further, even when a lender is able to take some losses, they may be subject to a "margin call". This means that as their losses and risk premiums increase, the value of their loan portfolio decreases. As the value decreases, the credit lines that are secured by those portfolios begin to issue margin calls as the value of the asset that they are secured on is now diminished. This is exactly like margin calls in the Stock market. If you have a loan against a Stock that is losing value, you will get a "margin call" and need to pay down the loan, as the underlying Stock is losing too much value to be considered adequate collateral any longer. So for the big lenders, as their portfolio is losing value due to increased risk premiums and losses...the margin calls start coming in, and they are required to pay down their balances. In turn, this means that they have less availability to fund their new loans, which then exacerbates the problem.

In response to seeing this situation play out in the demise of American Home Mortgage, lenders of other non-conforming loan products increased their interest rates dramatically almost overnight to be better prepared - and likely over-prepared - for increased risk premiums down the road. Even though loans above \$417K are not presently suffering from increased delinquencies like the Subprime and Alt-A loans are, these rates popped higher as well, because they are being purchased by smaller private entities that can't afford to take on any margin of risk.

What happens next? The major damage is probably already done, and the present situation will likely settle out over the coming year. Lenders will stop pulling products off the shelf, and the rates on products that have moved so significantly higher now should trend lower down the road as delinquency rates stabilize

HOW DO YOU DECIDE WHO TO MARRY? (written by kids)

You got to find somebody who likes the same stuff. Like, if you like sports, she should like it that you like sports, and she should keep the chips and dip coming.

— Alan, age 10

No person really decides before they grow up who they're going to marry. God decides it all way before, and you get to find out later who you're stuck with.

— Kristen, age 10

WHAT IS THE RIGHT AGE TO GET MARRIED?

Twenty-three is the best age because you know the person FOREVER by then.

— Camille, age 10

HOW CAN A STRANGER TELL IF TWO PEOPLE ARE MARRIED?

You might have to guess, based on whether they seem to be yelling at the same kids.

— Derrick, age 8

WHAT DO YOU THINK YOUR MOM AND DAD HAVE IN COMMON?

Both don't want any more kids.

— Lori, age 8

WHAT DO MOST PEOPLE DO ON A DATE?

Dates are for having fun, and people should use them to get to know each other. Even boys have something to say if you listen long enough.

— Lynnette, age 8 (isn't she a treasure)

WHAT WOULD YOU DO ON A FIRST DATE THAT WAS TURNING SOUR?

I'd run home and play dead. The next day I would call all the newspapers and make sure they wrote about me in all the dead columns.

— Craig, age 9

And the #1 Favorite is.....

HOW WOULD YOU MAKE A MARRIAGE WORK?

Tell your wife that she looks pretty, even if she looks like a dump truck.

— Ricky, age 10

Report: Bank fees add up to billions

Customers paying \$17.5 billion a year!

Consumers are being bilked out of \$17.5 billion annually by banks and credit unions through abusive overdraft protection programs designed to generate enormous fees, a report by the nonprofit Center for Responsible Lending contends.

“The nation’s financial institutions have quietly adopted a system to drive up fees ... hiding behind a smokescreen of misleading terms and murky practices that encourage costly overdrafts,” CRL director Eric Halperin said in a nationwide study

The report, titled “Out of Balance,” found that overdraft fees have risen dramatically from the \$10.3 billion counted in the center’s last report in 2005. It also found that the majority of the fees stem from debit card transactions, which are surging in popularity, especially among young adults who use the cards for small purchases instead of cash.

It used to be that when consumers swiped a debit card but didn’t have enough money in their account to cover the purchase, the transaction simply was denied.

Now, many banks allow the transaction to go through, but charge a “courtesy” overdraft fee averaging \$34, the CRL said. Fees quickly can balloon into hundreds of dollars, even for minor purchases. A \$2 Coke and a 50-cent candy bar each can end up costing \$30 or more with fees, for example.

To make matters worse, the vast majority of financial institutions that offer overdraft protection enroll customers automatically when they open an account, instead of asking for their consent, the report said. As a result, many customers are blindsided by the fees.

“Banks have the right to make money, but customers also have the right to information needed to make an informed decision about their finances,” U.S. Rep. Carolyn Maloney, D-N.Y., said during a CRL news conference yesterday.

Banks, which have faced a barrage of criticism for courtesy overdraft programs, have countered by noting that customers can avoid any fees by keeping close track of their balances so they don’t overdraw their accounts.

“Customers are in the best position to know what their actual balance is. Simply put, consumers are in control of their finances and can avoid overdraft fees,” an attorney for the American Bankers Association testified yesterday on Capitol Hill during a house subcommittee hearing on the issue, noting that balances can be checked by phone, at the ATM and online.

Mr. Halperin recommended consumers opt out of overdraft loan programs and consider lower cost options for covering overdrafts, such as linking their checking account to a savings account or opening a line of credit.

If the financial institution won’t allow customers to opt out, they should take their business elsewhere, he said.

Thank you for the kind words about the newsletters.

Hi Steve, I've been meaning to tell you that I think you've done a really nice job with the newsletters. Good work! And what a nice way to keep in touch.

George F.

Steve,
Thank you so much for the information on the pre-screened credit cards! I immediately went to the website and signed up for the opt out. You're the best!
Dawn Lawson

Answer to Brain Teaser...

Pre-schoolers all over the United States were shown this picture asked the same question.

90% of the pre-schooler's gave this answer.

"The bus is traveling to the left."

When asked, "Why do you think the bus is traveling to the left?"

They answered: "Because you can't see the door to get on the bus."

Thank you for taking the time to read my newsletter. I want to produce a newsletter that has great content and is fun and valuable to you. Your constructive feed back is always welcome.

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**This is a 12 hour old baby moose born on the front lawn of an Alaskan home.
Call me (877-533-2784) today with any questions
(about mortgages, not mooses (moosi?))**

Real Estate Corner...

Q. I am interested in buying a foreclosed home that recently went on the market. What should I be aware of?

A. Excellent question. I've been seeing a marked increase in my customers buying these types of properties lately. They are getting some great deals. Here are a few things you need to know:

- 1) A foreclosed home is a property that the previous owners were not able to maintain the payments on. When that happens, the mortgage holder takes the property back through a legal process called foreclosure. By the time the property hits the Realtor market, the property is being offered with clean title. In other words, you don't need to worry about any past tax, utility, or other liens on the property.
- 2) The bank that owns the property does not want to own the property. They will usually place it on the market substantially below market value.
- 3) Local customary fees. There are some local fees that are customarily the responsibility of the seller. Foreclosures may or may not follow custom. Make sure your Realtor finds out exactly who is paying what before you make your final offer
- 4) Utilities (water, gas, electric) are typically turned off in foreclosed properties. If you want to have a home inspection, you will bear the cost of having the utilities turned on for the inspection.