



From the desk of  
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# Real Estate Newsletter

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*Happy Valentine's Day*

## Fed Cut – What It Means to Mortgages...

At times like now, I think it's important to go back to the ol' mortgage primer and figure out exactly what all this news means to mortgages, home equity lines and the financial future. I've said it before, and I'll say it again: the 30-year fixed is not tied to short-term treasuries.

Fixed mortgage rates are tied to long-term bond yields that move based on the outlook for the economy and inflation. And guess what? The long-term outlook for the economy isn't exactly rosy right now.

Recent action by the FED rate cut does affect short-term adjustable rate mortgages, but not really as much as you might think. Why? Because this rate cut was already priced into the market. So anyone facing a reset on their ARM, is in much better shape today than they were just six months ago.

For example, if one's rate adjusts Feb. 1st, and the ARM is pegged to the 1-year treasury, than their reset is going to be to 5.25 percent as opposed to the 7.5 percent that it would have been in August. That's going to make the payment much more manageable.

So does this cut stem the foreclosure crisis? Maybe a bit on the margins, but not really, and here's why: the bulk of the folks facing foreclosure, because they can't make their monthly payments, have no equity in their homes and no money to put down on a refinance.

While rates might be lower, this is a market where lenders and investors are much more aware of risk and will gravitate toward borrowers that represent less risk. So many folks will still find themselves in trouble. For people who are having trouble paying the initial rate on the loan, forget it. No help there.

As for those looking to buy a home, that is, get a new mortgage, while ARM rates may be lower, the mortgage landscape is still a far far different tundra than it was just a year ago. You can't do a stated income loan anymore, and you can't do 100 percent financing. Tighter standards don't change with a rate cut.

And I want to add my two cents here about a home equity line of credit. Yes, the rates are lower now, but I really don't think that means we should all start using our homes as ATM's again, which is what got us all in trouble in the first place. This is a time to pay off debt, not to gather more.

Please contact me anytime regarding your real estate needs or questions; commercial or residential. And, remember that the highest compliment I, or anyone, can receive is the referral of my name to your family, friends and business associates. Thank you for your trust.

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