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The Myth about Mortgage Rates

By Al Sanli

As a long time local mortgage professional, the two questions I have been asked the most by Lamorinda residents over the years are "What is the interest rate?" and "Will the rates go up or down?" I would like to take this opportunity to answer these questions for all of you.

Interest rates are determined on a case-by-case basis depending on each individual's credit, income, employment, reserves, equity and type of loan required. People have a tendency to compare rates. However, rates can still be different even for similar loans that are established around the same time. This is due to the fact that rates change every day—possibly even two to three times a day.

Will rates go up or down? The correct answer is that no one knows. There are a lot of predictions, but it's like the stock market—a guessing game. It's important to know that mortgage rates are tied to the treasury bond market. If there is a good demand for bonds, the rates will go down. There are so many factors affecting the bond market and the most significant impact is based on inflation and unemployment. The bond market doesn't respond well to inflation. If inflation goes up, inter-

est rates go up. It's a different story when it comes to unemployment. High unemployment means lower mortgage rates. Overall if the economy is slow and things are negative, mortgage rates will go down.

Pay attention to the important details and secure the best rate;

1) Make sure you receive a Good Faith Estimate in writing that clearly shows all the fees including the amount of compensation going to the loan agent. Please note you have less of a chance of seeing this number from retail banks because they are not required to disclose the rebate. The main difference in working with a broker versus retail bank is that with an established broker you will have access to rates from a large number of various lenders including those from your banks wholesale division.

2) Ask the loan agent what his/her fee will be and how it will be paid. Most of the time agents are paid by lenders when their clients take a certain rate. This payment is called "Yield Spread Premium" and is mostly advertised as a "No Point" loan. If the lender compensation to the broker is good enough to pay the client's closing costs and still make a reasonable profit, then these loans can become

the "No Cost/No Point" loans that you hear about on the radio.

3) Another alternative is that brokers and banks can be paid directly from a client by providing a par or below market rate (lower rate with no lender/investor compensation and borrower pays the agreed fee to the broker through escrow). This type of arrangement may become more financially beneficial to you if you are considering a long term fixed loan.

4) Be careful not to be a victim of "pocket lock." This means that when the rate goes down lower than your target rate, the agent locks the rate you agreed on and receives additional compensation without passing the benefit to you.

5) Paying your taxes and insurance with your mortgage payment as an impound account may lower your rate. Also shorter term rate locks may help you to get a better rate such as 15 days lock versus 30 days. Your loan needs to already be approved.

6) Always ask for a loan comparison sheet that clearly shows and compares all your options next to each other. That way you will know if it makes sense to pay points for a lower rate.


The reasons that I have outlined above demonstrate why it is very important to work with a mortgage professional who has a good reputation and will disclose all costs to you up front. We tell our clients from the beginning that for refinance transactions our compensation scale is set and simple based on good credit for residential properties. For conforming loan amounts up to \$417,000 is 1 point, for loan amounts between \$417,001 to \$625,000 is 0.750 of a point and any amount higher than \$625,000 is 0.5 point. There is a 0.250 of a point add on for purchases. If they choose a "No Point" loan, then lender pays us the same amount. They have peace of mind knowing that whatever happens with the market will be reflected exactly in their rates.

The bottom line is that most of these loans are sold in the secondary market to the investors. Many homeowners believe that their retail bank is their lender, but most of the time that's not the case. Banks will just be handling the servicing of the loan for an additional profit.

Now you know what's going on behind the scenes with regard to mortgage rates. It's your decision to choose how much you are willing to pay and if the cost should be built in to the rate.

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Lamorinda Home Sales continued

	LAFAYETTE	Last reported: 7
	LOWEST AMOUNT:	\$355,000
	HIGHEST AMOUNT:	\$3,333,500
	MORAGA	Last reported: 1
	LOWEST AMOUNT:	\$1,070,000
	HIGHEST AMOUNT:	\$1,070,000
	ORINDA	Last reported: 10
	LOWEST AMOUNT:	\$384,500
	HIGHEST AMOUNT:	\$2,350,000

Home sales are compiled by Cal REsource, an Oakland real estate information company. Sale prices are computed from the county transfer tax information shown on the deeds that record at close of escrow and are published five to eight weeks after such recording. This information is obtained from public county records and is provided to us by California REsource. Neither Cal REsource nor this publication are liable for errors or omissions.

- LAFAYETTE**
- 1200 Cambridge Drive, \$1,075,000, 5 Bdrms, 2572 SqFt, 1960 YrBlt, 8-11-09
 - 4136 Canyon Road, \$3,333,500, 5 Bdrms, 6489 SqFt, 2005 YrBlt, 8-7-09
 - 18 Hidden Valley Road, \$1,200,000, 4 Bdrms, 2811 SqFt, 1947 YrBlt, 7-29-09
 - 3781 Highland Road, \$1,110,000, 3 Bdrms, 2699 SqFt, 2000 YrBlt, 8-13-09
 - 3270 Marlene Drive, \$355,000, 3 Bdrms, 1160 SqFt, 1972 YrBlt, 8-11-09
 - 81072 Via Alta, \$900,000, 4 Bdrms, 1867 SqFt, 1969 YrBlt, 7-30-09
 - 21 Moraga Road, \$782,000, 3 Bdrms, 2017 SqFt, 1950 YrBlt, 8-12-09

- MORAGA**
- 100 Whitethorne Drive, \$1,070,000, 4 Bdrms, 3054 SqFt, 1966 YrBlt, 8-7-09

- ORINDA**
- 26 Claremont Avenue, \$835,000, 4 Bdrms, 1488 SqFt, 1941 YrBlt, 8-13-09
 - 2 Dolores Way, \$384,500, 7-31-09
 - 46 El Gavilan Road, \$945,000, 5 Bdrms, 1363 SqFt, 1954 YrBlt, 8-13-09
 - 33 Las Cascadas Road, \$2,350,000, 5 Bdrms, 3633 SqFt, 1997 YrBlt, 8-7-09
 - 29 Greenwood Court, \$835,000, 3 Bdrms, 1750 SqFt, 1957 YrBlt, 7-29-09
 - 19 Mariposa Lane, \$900,000, 4 Bdrms, 1559 SqFt, 1948 YrBlt, 8-7-09
 - 4 Nobi Lane, \$1,400,000, 4 Bdrms, 3162 SqFt, 1984 YrBlt, 8-12-09
 - 70 Orchard Road, \$850,000, 3 Bdrms, 2333 SqFt, 1950 YrBlt, 8-13-09
 - 47 Robert Road, \$700,000, 3 Bdrms, 1481 SqFt, 1955 YrBlt, 8-7-09
 - 57 Via Floreado, \$1,862,500, 4 Bdrms, 2419 SqFt, 2007 YrBlt, 8-13-09

Lamorinda Foreclosures continued

- ORINDA**
- Valencia Road, Wachovia Mortgage, 07-31-09, \$820,350, 1819 sf, 6 bd
- MORAGA**
- Carroll Drive, Wells Fargo Bank, 07-30-09, \$987,716, 1646 sf, 3 bd

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