In the Loop Realty Newsletter

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CRYSTAL BALLS FOR SALE!!

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REAL ESTATE & ECONOMICS-

The past several weeks have revealed that Economists and Wall Street Analysts don't have a clue what will happen and haven't had a clue for quite some time. Last week analysts of Goldman Sachs, Morgan Stanley and Merrill Lynch put their own companies risk at the same as junk stocks. It seems that much of the positive spin by these companies over real estate and the mortgage securities market was intentional hype to protect the truth and likely in its minds to spur activity in housing and mortgage lending. One would hope that they envisioned responsible lending policies rather than the subprime bottom feeders' past "everything works" practices.

But let's get back to the self serving posture of some of the investment companies which are major backers of mortgage securities. A Bear Stearn's analyst upgraded New Century Financial, a company that specialized in loans for cash poor homeowners, one week before it defaulted on all its loans and had to close down its operation; and, presently is under federal investigation. How could that analyst miss that??? Maybe it had something to do with Bear Stearns being a long time substantial backer of New Century's mortgage operation. What tangled webs we weave!!!

Apparently, owners of mortgage securities that are pooled don't record any daily market prices unlike with stocks. So, it appears it is quite easy for traders and investors to overstate values. Again, self serving.

The primary focus today for analysts and government is the subprime market. Over 1/2 of the major subprime companies are out of business and some of the remaining are either teetering and / or under federal investigation. 35% of all mortgage securities last year were subprime, up from 13% in 2003. According to Banc of America Securities, the average loan to subprime lender was 48% of the value of the underlying properties in 2000. For 2006 it rose to 82%. Herein lies the problem. If the values opined by appraisers for these properties were overstated or let us say aggressive due to hyper activity, that 82% could easily be over 100%. That's right, there is no equity position for the holder of the security. This writer knows of a bank with many branches in New Jersey that over the past several years was making 125% loan to value (LTV) mortgages. Thomas Lawler, founder of Lawler Economic and Housing Consulting, said: "It's not that the mortgage industry is collapsing, it's just that the mortgage industry went wild and there are consequences of going wild." One could produce a treatise on this topic, but the impact is all that is important.

The latest unemployment figures reflect a mere 4% rate. However, is this really a viable yardstick of economic national health? No, unemployment rates are based on the number of people collecting, and not those who no longer can collect or those who are struggling in creating new home businesses, and those who have been forced to accept jobs at significantly less pay than that to which they were receiving. Overall, it's not a good economic outlook. Even the AFL-CIO, the largest investor in FNMA securities, is experiencing lost revenue due to factory closures and cut backs in

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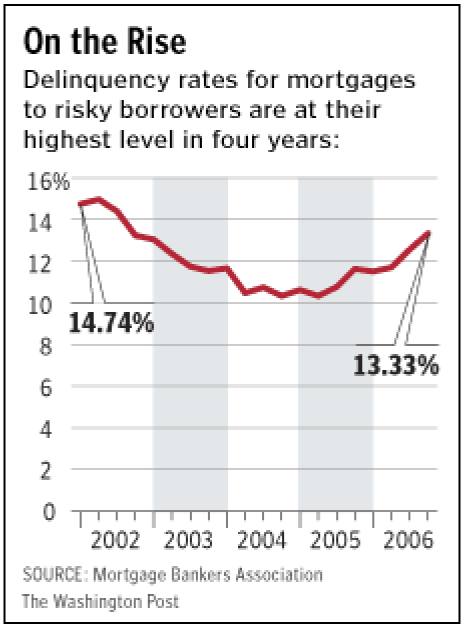
the white collar sector by many corporations.

The on-goings with mortgage securities is a replay of the dot com IPO's, and junk bond financial fads which had horrendous collateral damages.

As with all bubble situations, the infusion of cash is a necessity to keep it aloft. Without that cash, the puncture is large enough to drive a truck through and the landing is soft because the losses are defused throughout the economic atmosphere before it hits the ground. Many believe that this fall out will dramatically decrease the homebuying opportunity for many throughout the US. In addition, once lending sources realize there is little demand, it will be necessary to raise the interest rates, raise credit requirements and revert to 1950 and 1960 LTV's in order to provide at least a profitable vestige of home lending.

Is this all doom and gloom. Not really. It is often recognized that it is necessary to "clean house" of the short term cancers created by greed. One questions the rationale of "make hay while the sun shines" with regard to the major driving economic force in the United States, the home buying market and housing. It will survive and rejuvenate.



The NAR (Realtors), said that median home prices nationally fell by 3.1 % in 2006. OFHEO, the feds, said the median price fell 6%. Who to believe? Neither, as both are skewed based on their inclusions and exclusions. They are both right for the stats they consider. The feds don't include condo sales and no sale over $417,000, the FNMA & Freddie Mac lending limit. NAR considers all price ranges which skews the median by providing greater impact to the high price areas, as Southern Calif., Fla. and New England vs the lower priced locales because of the sheer weight of the numbers. If the high priced market places are experiencing exceptional demand and sales and the lower priced areas are relatively stable, the median will go up; and, conversely the median price will go down when the higher priced market places are experiencing a dramatic downturn in prices.

Current Mortgage Rates

Loan Type	Rate	Points	Previous Week	One Week Change
30 Year FRM	6.14%	0.5	6.18%	-0.04%
15 Year FRM	5.86%	0.5	5.92%	-0.06%
1 Year ARM	5.47%	0.6	5.49%	-0.02%
5/1 Year ARM	5.90%	0.5	5.93%	-0.03%
Source: Freddie Mac Primary Mortgage Market Survey				

Fed Prime Rate	8.25%	--
30 Year Treasury	4.66%	--

After a single week of declining rates, **mortgage interest rates** returned to the pattern of small incremental increases that has prevailed since mid-December.

The Freddie Mac Primary Mortgage Market Survey for last week showed the 30-year fixed-rate mortgage (FRM) had an average contract interest rate of 6.30 percent. This was an increase from the previous week when it averaged 6.28 percent. The 15-year firm moved up one basis point to 6.03 percent. Both FRMs carried points averaging 0.4 compared to 0.3 two weeks ago week.