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Lighting the Way in Finances and Life

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Those Who Wait Will Pay More

Waiting a few extra days or weeks to purchase a home this spring could cost buyers thousands of extra dollars as the office of Housing and Urban Development (HUD) implements several changes for loans guaranteed by the Federal Housing Authority (FHA).

The other potential cost facing future homeowners, whether they FHA or conventional financing, is the expiration of the Federal Reserve Board's mortgage backed securities purchase program (which has kept home loan rates artificially low for over a year).

Here is the impact from the FHA changes:

On April 5th, the cost of required up-front mortgage insurance for loans guaranteed by the FHA will increase from 1.75% to 2.25%. For a borrower purchasing a \$200,000 home with the minimum down payment of 3.5%, the up-front mortgage insurance will increase by \$965. Up-front mortgage insurance is typically financed in the final loan amount so the impact to a monthly payment will be minimal but overall, the increase is still borne by the borrower both upfront and monthly.

Later this spring, the amount of money that a seller can return to the buyer from their sale proceeds will be reduced from 6% to 3%. The reduction in these "seller concessions" can increase the amount of cash a buyer will be required to pay at closing by up to \$6000 for a home purchase of \$200,000.

When the Federal Reserve ends their mortgage-backed security (mortgage bonds that are packaged and sold together) purchase program on March 31, many real estate and mortgage experts are predicting an increase in interest rates.

Why? A little background on the situation... Home sales are a vital part of our nation's economy. A home purchase requires the need for realtors, title companies, appraisers, utility companies, mortgage companies, local tax authori-

ties, inspectors, and sometimes, contractors, cleaning services - you get the picture. When home sales are down, a large section of the economy is underemployed or unemployed.

So early last year, the federal government began a massive \$1.25 trillion (yes that's with a T) program to purchase mortgage-backed securities to send interest rates lower and stimulate people to buy and refinance. Interest rates went low because there was a demand for bonds - and that caused the price of mortgage bonds to go up. When the price of a mortgage bond goes up, its yield goes down, and since interest rates are determined by a bond's yield, interest rates went down.

Because demand (or in this case the federal government's purchase) is going away, mortgage bonds will likely need to decrease their price to attract investors. When prices go down, yields go up and so do mortgage interest rates.

One of the biggest purchasers of US mortgage backed securities has been foreign governments - particularly the Chinese and Japanese. It is unknown if they will increase their purchase volume when the US government stops its purchases, but speculation is that Asian investors will demand a higher yield for their investment dollar. If that is the case, watch for interest rates to go up .5% to .75% which would cause a house payment for a \$200,000 mortgage to go up \$60 to \$90 a month from their current levels.

According to recent statistics from local and national real estate boards, home prices are leveling out in the Twin Cities metro. With low interest rates and home prices hovering around 2003 values, the next few months will be a prime window of opportunity for real estate purchases.

For questions about the new FHA rules, the end of the mortgage-backed security purchase program and its effect on interest rates, or other mortgage questions you have, please call my office.

A Dad, A Dog and a Decision

I steeled my heart as I faced 4 sets of red teary eyes begging me to allow the family to have another dog.

“NO, NO, a thousand times NO!!” I exclaimed. I had just suffered through 10 years of dog ownership with one big dog and a miniature dachshund that was still a minor inconvenience. I finally had peace in my house (well sort of, with three teenagers still at home). I felt like I had a new leash on life again (oh, that was bad...).

I was just getting used to my house smelling normal, not having to see dog hair on the furniture and carpet, dreaming of a spring lawn without pee spots, and cherishing the peace and quiet of one less being in the house. When I was faced with those heart-tugging sad eyes, I started having flashbacks to the days of poop and pee in the house, barking at all hours of the night, chewed up furniture, clothes and other items, dogs running through the house...

I put up a valiant defense against those red, teary eyes. I got emotional, in the wrong sort of way, and I quickly realized I was losing - and losing bad. I was damned if I relented, and damned if I didn't. Either way I was going to lose. So, on that cold December evening, our family drove out to the outskirts of St. Francis to “just look at” a yellow lab puppy - and came home with Jack.

To his credit, Jack is extremely cute. He is full of an enormous amount of energy. He is very playful. He is very personable and friendly. He rarely barks! He potty trained very quickly, with few accidents. Sound like the perfect dog?! Not hardly.



Jack is very naughty. Daily he leaps up on the kitchen counter to eat butter. Yes, butter. Our food has to be guarded like the gold at Fort Knox. One Sunday afternoon I went down to the basement to watch the Viking's game with a piece of gourmet

pizza when I realized I had to make a minor adjustment at the back of the TV. I turned to see Jack stealthily sneaking away with my chicken garlic pizza in his mouth! I didn't even hear him coming down the stairs! For all I knew he was lurking, waiting for me to get up so he could nab



that fabulous piece of pizza! After this major infraction, and other “incidents” in the kitchen and dining room, Jack has been banned from the family at meal time.

Jack has a very distinct size advantage over our miniature dachshund, Minnie. He randomly trots over to a toy that Minnie has stashed by her little bed and takes off with it. Minnie used to snarl and growl at Jack when he would get close, but he eventually wore her down. This isn't such a bad thing, since Minnie needs to be humbled every now and then, but he does it with such attitude! There's no stopping this guy.

Jack always has something in his mouth. Anything. Lately he's taken to scattering boots and athletic equipment from the garage about the yard. Nothing is sacred. More attitude.

And then there is his hair. He finds ways to manipulate himself onto the furniture (when no one is watching) where he leaves his furry little deposits that find their way onto my work clothes. Call me picky, but I like to wear my clothes without accessorizing them with light colored dog hairs.

In Genesis 1:28, the Bible tells man to “rule over ... every living creature that moves on the earth. I may make the rules, but for the next 10-15 years, Jack, and the life lessons that he brings, will have dominion over me. I was just beginning to enjoy the few weeks of peace in my house. Now, I am treated to more “personal growth”.