

>: Kill Mortgage Brokers (Vol 1.)

Tuesday, January 9, 2007 / Dylan Jovine

SOMETHING HAS BEEN BOTHERING THE LIVING HECK OUT OF ME LATELY.

No, it's not the fact that CNN accidentally put a picture of Osama on the screen when discussing Barack Obama: that was just the kind of pie-in-the-face mistake that liberal media is great at making.

Nor is it the fact that the ninnies up in Washington think a troop surge of 20,000 is enough to get the job done in Iraq.

Readers of these pages know that I've been against the war from the minute they started selling it in 2002.

But now that we're there, it's about time we lock this place down Post-WWII style and show these C--kSuckers what it really means to have the most powerful military on the planet.

Nope, as disgusted as I am in the state of affairs we currently find ourselves in as a nation, nothing has disgusted me more then the following statistic:

In 2007, \$1.4 Trillion in mortgages are going to reset, giving many homeowners sharply higher monthly payments.

What does that mean to the average American?

It means that many young people are going to wind up FINANCIALLY CRIPPLED FOR THE REST OF THEIR LIVES.

Let me explain:

For the past five years, mortgage companies have made a fortune selling Adjustable Rate Mortgages (ARMs) to first-time buyers.

Many of these people were young and inexperienced 20-something kids with dreams of being a first-time homeowner.

But when a young person finances a house using an ARM, that person is essentially making a bet against the mortgage company that interest rates are going to stay low.

Now, everyone knows that the odds are with the casino in any bet they arrange - that's why most people who enjoy gambling only risk what they can afford.

But in this particular bet, the mortgage companies had the odds stacked heavily in their favor:

THE ONLY TIME IN 20TH CENTURY AMERICAN HISTORY THAT INTEREST RATES HAVE BEEN THIS LOW WAS DURING THE GREAT DEPRESSION!

Now, please understand that I do not extend my sympathies to investors, speculators or quick flippers who tried to make a fast buck in real estate.

I'm talking about young couples in their 20's - specifically inexperienced people who probably got married and were going to try to make it on a "wing and a prayer".

As you remember, \$1.4 Trillion dollars of mortgages are going to "reset" this year.

That means that many of these young people are going to get bills that are a heck of a lot higher than the bills they got the month before.

And many of them will be unable to pay them which will lead to a lot of foreclosures.

But what truly makes this situation so darn tragic - and what makes this time so different - is that the mortgage brokers had LESS RISK than ever before.

That's because the bankruptcy laws changed. Now 20-something-year-olds will have to live down one bad decision for the rest of their lives.

Let me explain:

If a young couple falls in love, gets married and spends \$250,000 for their first house at the TOP of the market, things could get painful.

one month this year and see that in some cases their payments have DOUBLED!

Double the mortgage payments, and you can only sell the house for \$200,000: that means you're \$50,000 in the hole.

If they can't pay this new, larger mortgage payment, then the effects can be devastating: thanks to the changes in the bankruptcy laws, these young kids could be in a financial hole for the rest of their lives.

That's a tough burden for 20-something-year-olds to have to deal with as they pull into their 30's.

It not only affects their own lives, but it even reduces the chances that they will be able to get their children educated at the best schools possible.

In short, the entire lineage of that person will be affected for generations to come.

And for what?

Just because the mortgage and credit card companies sold these people on a dream?

For those of you who think I'm being too soft, consider your own 20's: how many mistakes did you make that you are happy haven't followed you for the rest of your life?

(Remember the first person you thought you were in love with?)

So here's what I'm saying:

I'm a buyer of any asset at the right price. I've been trained from a young age to look a pain in any market as a good thing for a buyer.

When real estate really begins to take it on the chin, I will be a happy buyer.

I will take advantage of a person who was less educated than I and had to foreclose due to circumstance.

And while I will continue to appreciate - and profit from - a system that rewards and respects accountability....

There will be a small part of me that wonders who is on the other side of the transaction.

If it's a love-lost young couple who just fell in and out of love and had a kid but had to sell the house, I'll feel for them.

The 50K in debt they'll still owe the banks will be a VERY hard hurdle to overcome.

And yes, I will still buy the house because the system - while imperfect - works, and it's STILL the best system I've ever studied.

But this time, I'll do something different after I line my pockets with the cash of my inexperienced young 20-something victims.

I'll take a walk over to the office of the mortgage broker who sold this house to the couple and I'll punch him so hard in his face, he'll swallow his teeth.

Not giving people enough information to make a decision with such impact is totally unacceptable.

Best Regards,

Dylan Jovine
Chief Investment Officer

INVESTMENT TAKE-AWAY FROM THIS ARTICLE: Whether you are that young person who fell in love, got married and bought that first house too early or not, I have one piece of advice for you: RE-FINANCE NOW!

After five years of booming activity, the housing market fell into a slump last year. It is likely to stay weak into next year as well, analysts say. But other factors, such as still-decent mortgage rates and a good job market, should help cushion the situation.

Rates on 15-year, fixed-rate mortgages, a popular choice for refinancing, rose to around 5.89 percent recently, from 5.86 percent.

For five-year adjustable mortgages, rates also went up, rising to 5.96 percent, compared with 5.92 percent recently.

However, rates on one-year adjustable-rate mortgages edged down to 5.44 percent, from 5.45 percent recently.

point. Five-year adjustables had an average fee of 0.5 point, while one-year ARMs carried a fee of 0.6 point.

A year ago, rates on fifteen-year mortgages stood at 5.79 percent, five-year ARMs averaged 5.82 percent, and one-year ARMs were at 5.22 percent.

Mortgage giant Freddie Mac reported Thursday that 30-year, fixed-rate mortgages averaged 6.13 percent this week. That was up slightly from 6.12 percent last week but was down from 6.26 percent a year ago.



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