



Your Mortgage Banker for Life



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Rate Update

Nationwide average mortgage rates for conforming loans, as reported by Freddie Mac on Thursday, August 2, 2007.

30-year fixed 6.69%
15-year fixed 6.37%
5-year ARM..... 6.30%

Despite some ups and downs, conforming rates are similar to the end of June. Jumbo and other loan programs are a different story. See the Mortgage Update article and call me for the latest.

Mortgage Update

Well, this month's newsletter is a few days late because of continuing turmoil in the mortgage business. Problems that cropped up in sub-prime loans back in February have started percolating into more traditional loans.

Although conforming loans for buyers with good credit are at historically good rates (see the numbers at left for the national averages), other programs are seeing rates rise quickly and in some cases programs have gone away altogether.

By way of example, one investor's 30-year fixed rates for good credit, Jumbo loans (>\$417,000) went from 6.625% to 7.250% in the past week. However, during the same period, 30-year conventional loans (<\$417,000) dropped from 6.375 to 6.25%.

Without going into the intricacies of the mortgage business, let's just say that lenders are finding it difficult to sell some types of loans to the large institutions that typically buy them on the secondary market, which is where most mortgages end up. This situation exists because of the significant increase in

mortgage delinquencies and foreclosures. If investors aren't buying the loans, then lenders can't recapture the money required to fund new loans.

Therefore, in order to make loans look more attractive to investors, lenders are forced to raise rates. Or, if the lender can't sell a certain type of loan at any price, they stop offering that particular type of loan altogether.

With the visibility that exists in the marketplace, this has been a great opportunity to see the give and take of capitalism and the free market economy at work. However, given that the role of Fannie Mae and Freddie Mac is to provide liquidity to the market, it is expected that these agencies will soon step in to calm the markets.

At this point, if you are considering a real estate purchase or re-finance, be prepared for a changing, dynamic environment. As I mentioned last month, despite the turmoil in the marketplace, conventional loans are still at historically good rates, so you shouldn't feel intimidated about following through with your plans.

Credit Score Tip

Last month I mentioned things that others might do that end up dinging your credit score. This month my advice is about what you should avoid doing to yourself. Naturally, paying your bills on time has the biggest positive impact on your credit score, but there are a number of things that can drive your score down.

The best way to make my point is with a real life example. Earlier this year a client of mine signed a contract for and put \$5,000 in earnest money on an investment property in Texas. He needed a non-owner occupied loan and appeared to be in good shape financially.

However, when I pulled his credit score, it wasn't the 720 that he expected, but rather 655, a score that would have driven up the interest rate on his loan. Suddenly, he was considered a higher credit risk by lenders.

Upon taking a detailed look at the credit report, I discovered that he had opened three new credit cards in the past four months and had closed four others. The client thought he was being smart by transferring the balances on his old high interest cards to new "0" interest cards.

But, the credit agencies took a different view. Obtaining several credit cards in a short period raised a red flag that he might be having cash flow problems. Plus, since the cards were new, they had low limits and the client was carrying very high balances relative to those limits. This situation was also a concern for the lenders.

To maximize your credit score, it is best to keep the balance of each credit card at 30% of that card's limit or less. The older cards, although they had higher interest rates, most likely had higher limits. Also, closing credit card accounts has a negative impact on your credit score. So, if you pay off a credit card that you don't plan on using anymore, don't close the account.

My client's story actually ended on a good note. I suggested that he use some of his available cash to pay down the balances on his new cards as low as reasonable. Then, I was able to do a "rapid rescore" to reflect the revised circumstances. The new score was 701 and we were able to close the loan within the terms of the sales contract at a rate that made the investment pencil out. It was touch and go, but "all's well that ends well!"

Your referrals of friends, family and acquaintances are graciously welcome!

Photo of the Month...

As some of you know, my wife, Mary, spent two weeks riding from the Atlantic to the Mediterranean through the Pyrénées Mountains in southern France in June. (I stayed behind to keep the wheels of commerce turning.) The trip was organized by one of our biking buddies in the Portland Velo cycling club. The fifteen club members on the trip travelled many of the same mountain roads the Tour de France riders did just a few weeks later, including the Col du Tourmalet, shown at right. This climb is one of the most storied in the Tour de France and it challenged all. (Come to think of it, maybe staying in Portland was the right choice.)



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Joke of the Month...

I was in a car dealership a while ago when a large motor home was towed into the garage. The front of the vehicle was in dire need of repair and the whole thing looked like it had been an extra in the movie "Twister." I asked the manager what had happened. Apparently, the driver had set the cruise control, and then went in the back to make a sandwich.

Recipe of the Month — Gâteau Basque

In honor of Portland Velo's ride through the Pyrénées, this month's recipe is Gâteau Basque, a dessert unique to the region. Using the power of the Internet, Mary found a recipe which she thought would approximate what they were served in the Pyrénées. I gave it a try last week when the group got together to look at pictures and they said it hit the mark. Although the ingredients are simple, the technique is a bit more complicated than your average cake. There are more elaborate variations, but this is the traditional, rustic version that the locals enjoy.

There are two parts to this recipe: the gâteau or cake and the crème patissiere, a filling that goes between two layers of the gâteau batter before baking.

GÂTEAU INGREDIENT LIST

- 1/2 lb butter at room temperature
- 1 cup white sugar
- 2 egg yolks
- 1 whole egg
- 2 cups plus 1 tablespoon cake flour
- 1 teaspoon baking powder
- 1 pinch salt
- Zest of one fresh, ripe lemon, minced

CRÈME PATISSIERE INGREDIENT LIST

- 1 cup whole milk
- 1/3 cup sugar
- 5 teaspoons flour
- 1 pinch salt
- 2 egg yolks, lightly beaten
- 2 teaspoons vanilla extract, to taste

Cream the sugar into the softened butter until smooth. Add the two egg yolks, whole egg and lemon zest and mix well. Mix the flour, baking powder and salt and add to the sugar, butter, egg mixture in three or four additions; mixing well after each. Divide the batter into two equal portions, cover and place in the refrigerator for at least an hour. Don't expect it to be a typical cake batter. It is closer to pie dough.

While waiting, mix the sugar, flour and salt for the crème in a bowl. Carefully heat the milk in a heavy saucepan; stirring frequently. Remove from the heat when it is very hot, but not yet boiling and whisk into the dry ingredients; beating until well blended. Return the mixture to the pan and whisk constantly over low heat until it thickens to a pudding like texture; five minutes or so. Add the lightly beaten egg yolks to the mixture and cook for several more minutes; stirring constantly. Remove from the heat and allow to cool. Stir in the vanilla.

Butter and flour a nine or ten inch springform cake pan. When the gâteau batter is cold and hard, roll out one portion into a circle the size of the pan on a floured surface. Place it in the pan and push it up the sides a little, if you can. Spoon the crème onto the batter and spread to within a half inch of the edge. Working quickly, roll the second piece of batter into a circle and place over the crème. Don't worry if it isn't perfect. All should even out when baked. Press down around the edges to seal the two halves. Cook at 350° F for about 40 minutes (325° F for 30 to 35 minutes in a convection oven), until golden brown on top. Be careful not to over cook. Let cool and serve. Bon appétit!