

# The Select Report Newsletter

Spring Issue 2008

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## Conforming Loan Limits Increased: Lower Rates for Many Homeowners in California

By Kelly Lynch, Broker/Loan Specialist

On February 13, 2008, President Bush signed off on the \$168 billion stimulus package approved by Congress the prior week. In addition to tax rebates for millions of working Americans and business owners, the package includes a temporary increase in the conforming loan limit.

The economic stimulus package will allow the Federal Housing Administration, as well as Fannie Mae and Freddie Mac to offer mortgages above the current conforming loan limit of \$417,000 to as much as \$729,750 in high-cost areas. The California Association of Realtors calls this as a significant victory for homeowners in California where home prices are among the highest in the country.

The increase calls for raising the conforming loan limits to 125 percent of an area's median home price with a cap of \$729,750. U.S. Housing and Urban Development Secretary Alphonso Jackson will have up to 30 days or until mid-March to determine exactly what the loan limits will be for high-cost areas. (At the time of this writing, Jackson has not announced loan limits for California.)

What does this mean for you? Typically, interest rates for conforming loans are as much as 1% lower than rates for jumbo loans (e.g., loans in amounts greater than the conforming limit). Due to the high real estate prices in California, many California homeowners have mortgages that are greater than the current conforming loan limit of \$417,000. The increase in the conforming loan limit will allow some homeowners to refinance into low rate mortgages and some new home buyers to better afford their monthly mortgage payments.

If you want to know whether the change in conforming loan limits will affect you directly, give your KPL loan specialist a call. We are here to answer any of your questions and assist you with all your home financing needs.

## When The Federal Reserve Lowers Interest Rates What Does This Mean For You?

By Amy Dantzler, Senior Vice President

You probably have heard a lot about interest rate cuts in the news over the past couple of months. But these rate cuts do not always have an immediate impact on your mortgage. In order to understand how the rate cuts affect you, it is helpful to understand the four major interest rates that are affected by the Federal Reserve.

### The Four Major Interest Rates Affected by the Fed

**1. Discount Rate:** This is the interest rate that banks pay when they borrow money directly from the Fed. The rate has been largely symbolic in the past because banks tend to look elsewhere for short term financing. Typically, banks borrow money in one of the following ways:

- Issuing commercial paper – These are short term loans of typically one to 90 days that are sold in the open market to Wall Street investors. Interest rates on these loans are often better than the discount rate offered by the Fed.
- Borrowing money from other financial institutions using the Fed Funds Rate as explained below. In most cases, this rate is also better than the discount rate offered by the Fed.

(Continued on Page 2)

## The Federal Reserve (continued from page 1)

- Borrowing money using the Fed's new "Term Auction Facility" that allows Banks to bid anonymously on what interest rate they want to pay when they want to borrow money from the Fed.

**2. Fed Funds Rate:** This is the interest rate that U.S. banks pay when they borrow money from each other. This rate is also determined by the Fed because banks in the U.S. are part of the Federal Reserve System. The Fed's main role is to maintain "monetary stability" by keeping a close eye on the flow of money throughout the economy. One way they do this is by regulating the interest rates that banks charge each other for short term funds.

**3. LIBOR Rate:** This London Interbank Offered Rate (LIBOR) is the interest rate that banks pay when they borrow money from other banks anywhere in the world. There are various types of LIBOR rates including the one week LIBOR, the one month LIBOR, the six month LIBOR and the one year LIBOR, which each apply depending upon the length of time the money is borrowed (e.g., one week, one month, etc.). Although the LIBOR rates are determined by the financial markets at any given time, they are closely related to the Fed in that the LIBOR often changes when the market anticipates that the Fed will change their Fed Funds Rate. LIBOR is the base rate used on most Adjustable Rate Mortgage (ARMs) in the U.S. and large commercial loans. The reason for this is that LIBOR most accurately measures a bank's cost of borrowing funds.

**4. Prime Rate:** This equals the Fed Funds Rate plus 3% and is the base rate that is used for most consumer loans such as credit cards, home equity lines of credit and many small business loans. Like LIBOR, the Prime Rate is tied to the Fed Funds Rate.

### How Does the Fed Affect Mortgage Rates?

When the Fed lowers the Fed Funds Rate (as you have heard in the news), the business and consumer-based interest rates of LIBOR and Prime go down. So those short term loans based on LIBOR or your equity line of credit based on Prime are immediately impacted. But the Fed is reluctant to lower rates if they believe that businesses and consumers will then be motivated to borrow or spend so much money as to cause inflation to increase significantly.

However, when the Fed lowers the Fed Funds Rate, fixed rate mortgages and ARMs with fixed periods that are three years or greater are not directly affected. Due to our mortgage lending system in the U.S., these longer term loans are tied to the Mortgage Backed Securities that trade on the bond market. When a borrower gets such a loan, the lender sells the mortgage to secondary market investors such as Fannie Mae, Freddie Mac or other financial institutions. These investors package many mortgages together as "securities" or bonds. This process is called "securitizing" the mortgages into a financial product that can be sold to Wall Street investors such as mutual fund companies. Thus it is bond trading that actually directly affects most mortgage rates.

With all the confusing information and misinformation in the news lately, it's difficult to know what to do. If you have any questions about whether you should refinance in light of all the volatility in the markets, give your KPL loan officer a call at (818) 907-5757 or (760) 327-9700. We would be happy to review your financing options with you and answer your questions about the interest rates and how they affect you.

## Palm Springs Update: Palm Springs Mayor Steve Pougnet Addresses Plans for the City

By Jennifer Fromhold, Palm Springs Administrative Coordinator

On February 7, 2008, newly elected Palm Springs Mayor Steve Pougnet announced his plans for the city at the first State of The City Address held at the Convention Center. Mayor Pougnet raised three main issues of concern.

First, Mayor Pougnet raised issues regarding city services. He asked for cooperation from the city council to implement an online customer service program that would allow the public to receive up to date information on city projects, developments and other important information. The mayor will be seeking increased funding to resurface city streets and will be implementing a plan with the Desert Water Agency to redesign all city medians with desert landscaping to conserve water. The mayor also will be working with the police and fire departments to bring about a better public safety program for the city of Palm Springs in order to reduce crime and vandalism.

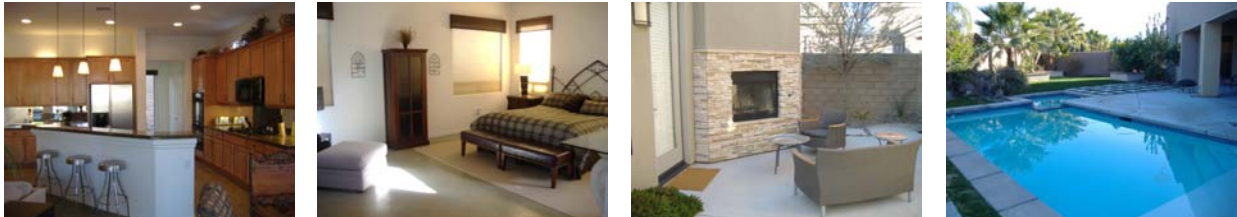
Second, the mayor discussed conservation and the environment. He wants Palm Springs to be a coined a "Green City." Thus, the mayor will be implementing an eco-sensitive sustainability plan for the city by the end of 2008.

Finally, Mayor Pougnet is strongly urging the revitalization of downtown Palm Springs. He identified numerous projects that are in the works ranging from mixed use developments to five star hotels all of which he believes will bring back re-vive classic Palm Springs.

## Are You Looking To Get Away From It All?

KPL Select Property Management offers beautifully appointed vacation homes for rent in Palm Springs and the surrounding areas, where you'll almost always find warm weather, sunny skies and a laid back atmosphere. If you're looking to do something other than relax, the Coachella Valley also offers fine dining, shopping, golfing, hiking, museums, spas and more. Vacation homes are available for weekend and longer term rentals.

Visit our website at [www.kplselectpropertymanagement.com](http://www.kplselectpropertymanagement.com) to see some of the homes we have under management or call the Property Management Team today at 760-327-9700 to find out about availability.



Featured home: Montage. This beautiful modern home with lovely mountain views is nestled in a gated community within prestigious Rancho Mirage and adjacent to the Mission Hills Country Club.

## Helping Hands — Join KPL's Habitat For Humanity Team!



Last summer, KPL staff, clients and friends helped Habitat For Humanity construct a wall in a residential community in Pacoima, California. This spring members of the KPL Team will continue building a home with Habitat For Humanity. We invite you to join us on **Saturday, May 17th, from 8:00 a.m. till 4:00 p.m.** for another day of volunteer home construction work in **Pacoima**.

Habitat For Humanity is a non-profit organization dedicated to the goal of eliminating poverty and making decent, affordable homes a reality for all families. Habitat homes are built almost entirely (90%!) by volunteers, both skilled and unskilled. Habitat's skilled on-site construction team will provide us with tools, safety equipment, instruction and preparation for the site. Volunteers do not need any construction experience, just a willingness to learn and work hard! However, if you do have construction skills, Habitat will make sure they are utilized.

If you'd like to learn more about Habitat For Humanity and its mission, visit: [www.habitatla.org](http://www.habitatla.org). **For more information and to volunteer with the KPL Team on Saturday, May 17th, contact Diane Briseño at (818) 907-5757 x249 or [dbrisen@kplselect.com](mailto:dbrisen@kplselect.com) by May 1st.**

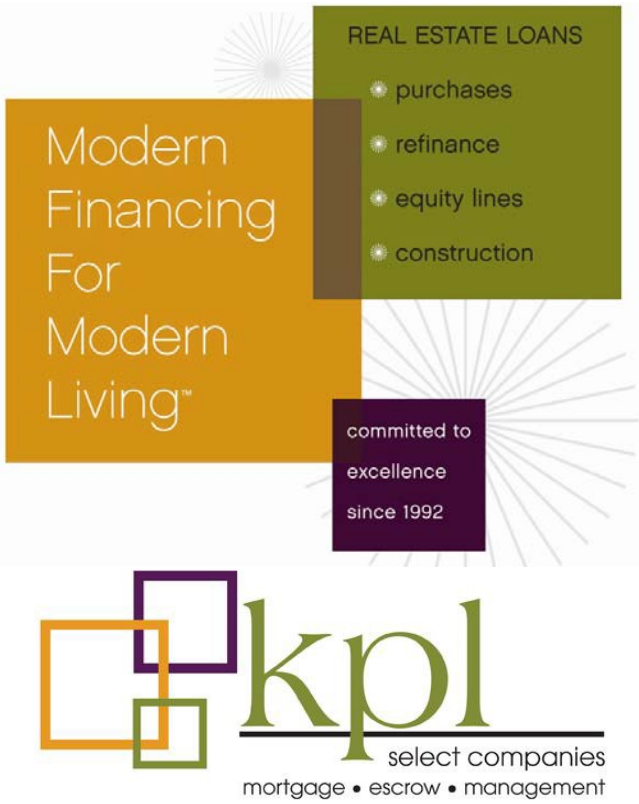
We hope to see you there!

## KPL Featured in Mortgage Originator Magazine

KPL's Thanksgiving Card and one of our favorite desserts were featured in the Mortgage Originator's November 2007 issue.

**MARKETING PORTFOLIO**  
A selection of distinctive marketing materials produced by lenders, originators, and others to create visibility and increase business.

**Kelly Lynch**, an originator with KPL Select Mortgage, Sherman Oaks, Calif., appreciates her clients and referral partners, and to show her gratitude she sends them a Thanksgiving card with something extra. Included in this card is a recipe insert, consisting of some of KPL's favorite desserts such as Grammy Ware's Pumpkin Pie and Sheri's Crowd-Pleasing Kugel. The insert also gives Lynch's company and contact information including Web site, phone numbers and office addresses. The front of last year's orange-colored card read, "Gratitude." Once opened, the greeting continued, "One Word. Many Thanks. All of us wish you and yours the best this holiday season." "We create the Thanksgiving greeting card itself with a designer, but the recipe card insert is done in-house," said Lynch. "We get positive feedback from clients and friends about both the Thanksgiving greeting card and the recipe card insert."



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**es•crow** (ēs'krō) *n.* As part of a real estate transaction, money, property, a deed or a bond may be held in the custody of a neutral third party to be turned over to the grantee upon fulfillment of a condition. Real estate related escrow processing can be performed under various forms of licensure.

**DRE es•crow** (dē-ār-ē ēs'krō) *n.* [Abbr. of Department of Real Estate licensed escrow.] Real estate brokers licensed by the California Department of Real Estate can perform escrows, but only in transactions where the broker is acting as an agent.

**DOC es•crow** (dē-ō-sē ēs'krō) *n.* [Abbr. of Department of Corporations licensed escrow.] Real estate related escrows can be performed by independent escrow companies licensed by the California Department of Corporations in **any** real estate transaction.

After five years operating as a division of KPL Select Mortgage, Inc., we are pleased to introduce **KPL Select Escrow, Inc.**, an independent escrow company licensed by the California Department of Corporations.

KPL Select Escrow, Inc. will provide the same outstanding service it has provided to our valued clients for the past five years but we are now able to assist you in all your escrow needs whether for purchases, sales or refinances.

**Call Kevin Gibson, our Escrow Manager, at (818) 907-5757 x223 today to learn more about our escrow services and how we can assist you with your home purchase, sale or refinance.**