



MORTGAGE MATTERS...

Week of August 2, 2010

Market Comment

Could we be seeing the beginning of a post-tax-credit rebound? We can't say for sure – too many variables and too many contrasting opinions to vet – but we hold out hope that June's rebound in new-home sales could presage better days.

On that front, sales rebounded to 330,000 units annually, a 23.6 percent increase over May's rate of 267,000 units. More encouragingly, sales were up in three of four major regions: The Northeast posted the biggest gain at 46.6 percent, followed by the South at 33.1 percent, and the Midwest at 20.5 percent. The West was the notable loser, posting a 6.6 percent drop, but it's worth noting that the West had been posting stronger sales over the past few months.

We don't want to get carried away and read too much into one month's worth of data, but if there is a bright spot for homebuilders, it's that inventories are as lean as they've been in forty years.

Homebuilders can also take solace knowing that home prices rose nationally, in May. According to Standard & Poor's/Case-Shiller home price index, prices increased 1.3 percent, with 19 of 20 markets posting month-over-month gains. Of course, we are speaking of national prices, and real estate is local. If you bought a home in San Francisco recently you might be asking, what housing slump? If you had bought a home in Las Vegas

anytime over the past four years, you're still wondering when the nightmare will end.

Some think the nightmare won't end soon. Fiserve, for one, projects that home prices will fall another 4.9 percent nationally over the next 12 months, with the usual suspects – Nevada, Arizona, and Florida – taking the hardest hits. Not surprisingly, these areas have also been hardest hit by unemployment.

That said, we still believe we are looking at a relatively stable pricing environment for most parts of the country. The Miami metropolitan area, one of the more notoriously overbuilt burghs, has even posted some price improvement over the past twelve months. Again, real estate is local, so it's impossible to predict how any one market will perform over the coming months. In aggregate, though, we question Fiserve's projections.

Mortgages rates, on the other hand, are influenced by national events. Here, the trend continues to push lower. Just about everything is being quoted under 5 percent these days, with some adjustable-rate mortgages regularly quoted under 4 percent. The low rates offer plenty of options: Moving to a 15-year fixed-rate mortgage to save interest and to more quickly amortize the loan being one of the more obvious. A 20-year fixed-rate mortgage is another worthwhile option, particularly for borrowers unsure if they can handle the monthly obligation of the 15-year loan.

Economic	Release	Consensus	Analysis
Construction Spending (June)	Mon., Aug. 2, 10:00 am, et	0.6% (Decrease)	Important. Residential real estate is stabilizing, but commercial construction remains weak.
Personal Income & Outlays	Tues., Aug. 3, 8:30 am, et	Income: 0.3% (Increase)	Important. Income gains are pushing outlays higher.
Factory Orders (June)	Tues., Aug. 3, 10:00 am, et	0.5% (Increase)	Moderately Important. This volatile economic measure suggests business spending is accelerating.
Pending Home Sales Index	Tues., Aug. 3, 10:00 am, et	79 Index	Important. Sales should improve after May's tax-credit-expiration plunge.
Mortgage Applications	Wed., Aug. 4, 7:00 am, et	None	Important. The mini-boom in refinances has ebbed, while purchase interest remains tepid.
Employment Situation (July)	Fri., Aug. 6, 8:30 am, et	Unemployment Rate: 9.6%	Very Important. A surprise on either number will move interest rates.
Consumer Credit (June)	Fri., Aug. 6, 3:00 pm, et	\$5.6 Billion (Decrease)	Moderately Important. The continued decline in credit usage suggests consumers remain wary.

Lower Still?

We might be the wrong ones to ask if mortgage rates can go lower. We thought we would be looking at a 30-year fixed-rate loan quoted in the 5.5-percent vicinity by now when we were prognosticating back in January. In our defense, rate increases have been marginal and gradual along the way, which we thought they'd be (just not for so prolonged a period), and have had minimal impact on stimulating sales, which we've been saying all along.

Rates could go lower, though you have to ask yourself, if I'm looking at the lowest rates in a lifetime, how long can they con-

tinue to be the lowest? Liquidity issues – the unprecedented amount of money the Federal Reserve has injected into the financial system – lurks in the background. But if the economic recovery remains anemic and refinances dry up and purchases fail to pick up the slack, lenders could look to stimulate activity by dropping rates even lower.

To answer the question, we think another 20-basis point is not unreasonable, but we still question if the risk of holding out is worth the reward. After all, we're not even talking about a half percentage point, and let's not forget that it only takes a brief flurry of bullish economic data to get rates moving higher again.

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