



MORTGAGE MATTERS...

Week of August 9, 2010

Market Comment

The news on the home (housing actually) front mirrored the weather in many parts of the country, inducing a torpor that failed to move people. That's not necessarily a bad thing, because the one worthwhile national data release wasn't worth cheering about.

Contracts for pending sales of previously owned homes fell to a record low in June, according to the NAR, which reported that its Pending Home Sales Index fell to 75.7 from a revised 77.7 in May. (Its high was in the 130s in late 2005.) Pundits who specialize in forecasting the Pending Homes Index had collectively expected an increase to 79.

So where do we go from here? Again, the post-tax-credit lull should have been expected, and perhaps it was more of a lull than many had expected. But we think there is a lot of room to recover now that we are back to what would be a more "normalized" market: in other words, a market more open to the vicissitudes, vagaries, and benefits of free enterprise.

We know many agents appreciated the tax credits in helping to stabilize the market and to help business (as it helped ours). Eventually, though, everyone has to stand on his or her own two feet, which is why *the Wall Street Journal* comments from DR

Horton CEO Donald Tomnitz are worth considering. Says Mr. Tomnitz, "We want to get back to a normalized market. It is a lot easier to run a business based upon designing your business with the current demand as opposed to having any kind of stimulus or incentives to create abnormal demand."

In the mean time, today's market is still a market of opportunity. CNN.com ran a recent article highlighting the mini-boom in residential real estate investing. What was particularly intriguing was that investors were not focusing on price-appreciation potential, they were analyzing their investments as real estate investors had historically analyzed real estate investments—on cash flow. The good news is these properties were generating positive cash flow from the get go, which means the investors were buying and holding for the long-term, and that's what conservative investing is all about.

For others considering entering the market, stabilizing home prices are increasing the pool of borrowers able to refinance – unbeknownst to many of them, who remain sidelined by the perception that their homes can't appraise at a level that justifies refinancing. Fortunately, we're finding that more appraisals are justifying a refinance, which is why we are looking forward to more refinances coming our way.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Productivity & Costs (2 nd Quarter 2010)	Tues, Aug. 10, 8:30 am, et	Productivity: 0.6% (Increase)	Moderately Important. Productivity gains are keeping wage-inflation in check.
Wholesale Trade (June)	Tues, Aug. 10, 10:00 am, et	0.5% (Increase)	Important. Business spending continues to drive economic growth.
Federal Reserve FOMC Meeting	Tues, Aug. 10, 2:15 pm, et	Federal Funds Rate: 0.0% – 0.25%	Important. The Fed will likely stand pat on interest rates and economic stimulus.
Mortgage Applications	Wed, Aug. 11, 7:00 am, et	None	Important. Renewed purchase activity suggests improved housing data for July.
Import Prices (July)	Thurs, Aug. 12, 8:30 am, et	0.1% (Increase)	Moderately Important. A stronger dollar means import-price inflation remains a non-issue.
Consumer Price Index (July)	Fri, Aug. 13, 8:30 am, et	All Goods: 0.3% (Increase) Core: 0.2% (Increase)	Important. Domestic retail prices are rising, which could pressure interest rate to move higher.
Retail Sales (July)	Fri, Aug. 13, 8:30am, et	0.4% (Increase)	Moderately Important. Consumer spending remains sluggish, but business spending is picking up the slack.

A Little More of the Same, Only a Little Worse

Because employment is the key to any recovery, we are compelled to focus on the employment report when it's released each month. July's go-around showed that the unemployment rate held steady at 9.5 percent, with a net loss of 131,000 jobs (most of which were temporary government jobs). We take some solace in knowing the private sector continues to add jobs – though at a lower-than-expected 71,000 pace in July.

The employment report means mortgage rates are likely to maintain today's lows through the end of summer. Some brokers and bankers are even speculating we could be looking at

the 30-year fixed-rate loan dropping below 4 percent. That wouldn't necessarily be a good thing; it would mean that the economy is struggling much more than most economists had thought. We don't think it's that bad, so we are still expecting any decreases to be marginal.

This means potential borrowers have a little more time to procrastinate. That said, we still think it's better to act now instead of later: home prices are firming, which means the better deals will soon be gone. We also think that mortgage rates are only "likely" to maintain their lows, not guaranteed to maintain them.

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