



# MORTGAGE MATTERS...

Week of August 23, 2010

## Market Comment

Charles Dickens famously begins *A Tale of Two Cities* with “It was the best of times, it was the worst of times.” Further into that first sentence, and keeping with the opposing theme, he writes “it was the spring of hope, and the winter of despair.” Dickens obviously wasn’t referring to the housing market, but maybe the sentiment applies.

It just might be the best of times for some (discussed below), though the worst of times is more easily grasped. Look no further than homebuilders: a few are feeling like it is the worst of times, at least when gauging sentiment. On that front, the housing market index fell for a third-consecutive month in August, posting at 13. To put current sentiment in perspective, a reading above 50 indicates more builders view sales conditions positively. The index hasn’t seen 50 in more than three years.

Not surprisingly, homebuilders are expressing the same concerns that most of us are expressing: they sense that the economy, in general, and the job market, in particular, are losing traction. The trend in job creation is particularly worrisome. Weekly jobless claims continue their upward climb, posting a 2.4 percent increase for the week ended August 14 to hit a nine-month high.

The news wasn’t all cold porridge and damp weather, though. Housing starts in July posted a modest comeback, rising 1.7 percent, to an annualized pace of 546,000 units. Granted, the gain was due primarily to a technical rebound in the multifamily component, but it’s still good news nonetheless. As for the single-family component, it slipped slightly on both starts and permits.

At least mortgage rates continue to help keep the affordability quotient high. Rates did rise slightly across the board this past week, but they remain near multi-decade lows. That said, we continue to advise –yet again – not to wait on either a refinance or a purchase. We still see too much complacency in the market: borrowers thinking that low rates are going to be around forever. They won’t, and they can rise in a hurry.

We understand that frustration is keeping many potential borrowers on the sidelines. On the one hand, they read about federal programs aimed at boosting home sales and refinances, and then on the other hand, they face the reality of Fannie Mae’s and Freddie Mac’s lending standards. Our advice: Try anyway. Borrowers are often surprised (pleasantly) that solutions really do exist.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Existing Home Sales (July)	Tues, Aug. 24, 10:00 am, et	4.83 Million (Annualized)	Important. Sales continue to search for post-April 30 equilibrium.
Mortgage Applications	Wed, Aug. 25, 7:00 am, et	None	Important. Disappointing purchasing data underscore the fragility of the US housing market.
New Home Sales (July)	Wed, Aug. 25, 10:00 am, et	340,000 (Annualized)	Important. Sales are clawing back from the May lull, suggesting a stabilizing market.
FHFA House Price Index	Wed, Aug. 25, 10:00 am, et	None	Moderately Important. The index is expected to decline on contracting home sales.
Gross Domestic Product (2 <sup>nd</sup> Quarter 2010 Revised)	Fri, Aug. 27, 8:30 am, et	1.4% (Annualized Growth)	Important. Earlier estimates of economic growth are being revised downward.
Consumer Sentiment (August)	Fri, Aug. 27, 9:55 am, et	68 Index	Moderately Important. Unemployment continues to weight on sentiment.

## More Solutions We’d Like to See

For many mortgage-loan and housing investors, the current market just might be the best of times, particularly for those investors pejoratively known as “vulture” investors – investors who seek value in distressed situations.

In one incarnation, vulture investors acquire mortgage loans at a deep discount and then renegotiate terms with the borrower to repay at a substantial discount. For example, if investors pay \$100,000 for a loan with a \$200,000 balance due, they might negotiate a \$140,000 balance with the borrower.

It’s an obvious win-win situation: the investor still makes money on his investment and the homeowner still keeps his home, with lower payments and a reduced balance. What’s

more, cutting the loan balance might be the most effective way to motivate borrowers to resume payments, because it gives them more hope of eventually owning the home.

Over the past two years, less than \$25 billion of delinquent mortgages have been sold to “vulture” investors. This represents only 0.25 percent of US home loans outstanding, according to the *Wall Street Journal*. But the percentage is likely to grow as banks try to clean up their books before year end.

Let’s hope that’s the case, because vulture investors aren’t as ugly as the name implies. In fact, they might be a real beauty for us, clearing the market much more expediently of unwanted inventory than either the big banks or the federal government.

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Keeping up-to-date on market fluctuations allows you to bring greater value to your clients.