



MORTGAGE MATTERS...

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Keeping you updated on the market!
For the week of

April 19, 2010

MARKET RECAP

Foreclosures remain front-page news. RealtyTrac reports the number of homes taken over by banks jumped 35% in the first-quarter of 2010 compared to the same year-ago quarter. More worrisome, foreclosures grew 7% from the last three months of 2009.

It appears we're backsliding again. The foreclosure rate was easing late last year, as banks were pressured to modify home loans. In addition, many states enacted foreclosure moratoriums to give troubled homeowners some breathing room to catch up on their payments. Never mind that banks were struggling with their own survival.

Our modus is to accentuate the positive when possible, since the positive is given short shrift by the mainstream media. On that front, the foreclosure problem remains concentrated in 10 states, lead by the usual suspects – Nevada , Arizona , Florida , and California (but not the entire state).

We found more positive news in the NAHB/Wells Fargo Housing Market Index, which showed a marked improvement in homebuilder sentiment, rising to 19 from the consensus estimate of 16. Many commentators credited additional business driven by the impending expiration of the federal homebuyer's tax credits, but that doesn't make sense. We're all aware that a buying surge was likely heading into April, but homebuilders are surely looking beyond April. Perhaps the fact housing starts posted at a better-than-expected 626,000 units for March is a better measure of the renewed optimism.

Other variables are at work too; many are positive, including economic activity, which increased in most parts of the country, according to the Federal Reserve. We're not surprised. In past editions, we noted that the stock market is a reliable economic indicator, and the stock market continues to show a strong recovery.

Our optimism appears to be rubbing off on more consumers, of whom 72% opine that it's a good time to buy a house, according to a recent Gallup poll. Gallup said

the figures were "potentially encouraging," presenting sellers with an audience of buyers who believe buying a home would be a good investment.

We agree with Gallup – buying a home is a good investment. To that, we can add financing is still a good deal: Rates have dropped in the past week and mortgage activity has slowed, increasing the odds that home buyers will get the home they want and the loan they need at the most advantageous prices.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Leading Indicators (March)	Mon, April 19, 10:00 am, et	0.9% (Increase)	Important. The indicators suggest an accelerating economic recovery.
Mortgage Applications	Wed, April 21, 7:00 am, et	None	Important. Activity will likely increase on lower rates and an improving economy.
Producer Price Index (March)	Thurs, April 22, 8:30 am, et	Finished Goods: 0.3% (Increase) Core: 0.1% (Increase)	Important. Inflation remains under control, but producers are better positioned to pass along costs.
Existing Home Sales (March)	Thurs, April 22, 10:00 am, et	5.2 Million (Annualized)	Important. Sales should rebound on impending expiration of homebuyer tax credits and better weather.
FHFA Home Price Index (February)	Thurs, April 22, 10:00 am, et	None	Moderately Important. Prices will show some weakening, but mostly due to seasonality.

New Home Sales (March)	Fri, April 23, 10:00 am, et	320,000 (Annualized)	Important. Sales remain sluggish, but homebuilder sentiment suggests future improvement.
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We're Past the Graveyard; It's Time to Move on

The counter-intuitive – black is white, up is down, north is south – is a popular theme in business books these days. Bad news is good news is another one. In our own world, the bulging problem of foreclosures and delinquencies appears to be bad news. If you dig a little deeper, though, it really isn't.

Foreclosures aren't growing alarmingly, nor are they necessarily new for that matter. They existed in abundance last year, but if you'll remember, last year was a time of waning confidence and growing uncertainty. In other words, we didn't have the stomach, and we weren't sure if the banks had the financial wherewithal, to deal with the problem, so we didn't. Fast forward a year later, and much has changed – fortunately for the better: The financial system isn't collapsing, banks aren't hemorrhaging money, and the economy isn't spiraling into the abyss. To the contrary, the financial markets are stabilizing, banks are making money, and the economy is improving. In other words, we are much better positioned today to address yesterday's problems. Call it the strategy of “whistling past the graveyard.”

Well, now we are past the graveyard, so expect banks to stop whistling and to start aggressively working to resolve their foreclosure and REO issues. What's more, expect them to resolve these issues rationally and orderly. That's good news, because we don't expect banks to destabilize the market by flooding it with distressed properties. That means it's still a buyer's market, but only in the sense that prices are as low as they're going to go, and that's good news too; buyers who buy today are unlikely to suffer buyer's remorse tomorrow.



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