



# MORTGAGE MATTERS...

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on market  
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allows you  
to bring  
greater  
value to  
your  
clients.  
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*Keeping you updated on the market!*  
For the week of

**July 19, 2010**

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## MARKET RECAP

Foreclosures were the leading story this past week – leading because they were alarming. RealtyTrac (which is quickly morphing into the “Debbie Downer” of housing data aggregation) reported that banks seized nearly 270,000 properties in the second quarter of 2010, a 5 percent increase from the previous quarter and a 38 percent increase from the same year-ago quarter. RealtyTrac expects that repossessions will top 1 million this year, thanks, in no small part, to an inventory of 5 million seriously delinquent loans.

Of course it's bad form, not to mention irrational, to shoot the messenger, and we don't mean to do that: RealtyTrac is simply reporting the facts as it collects them. But it's worth noting that the extent of the foreclosure and shadow inventory problem isn't flying below anyone's radar. In other words, it's already built into expectations. As we've stated before, it's the unknown that roils markets, not the known.

Housing prices were also singled out for attention and exposition last week. CoreLogic reported that national home prices increased in May, posting a fourth-consecutive year-over-year increase and another monthly increase. To us, this suggests a stabilized pricing environment, which also suggests an opportune buying market. Nevertheless, CoreLogic expects prices to "moderate and possibly decline" because of the expiration of tax credits (the failsafe explanation) and languid job growth.

We remain upbeat, nevertheless, because we have faith in the private market to make lemonade when handed lemons. To wit, Housingwire.com reported that San Diego-based Brookfield Homes launched a new initiative to provide referred home buyers a \$10,000 credit toward closing costs, options, or upgrades, while giving \$5,000 for the referral. Whether Brookfield's initiative will work remains to be seen, but we appreciate the tenacity and ingenuity to solve a difficult problem.

Anything Brookfield Homes, or any other home seller, sells can still be financed at rock-bottom mortgages rates, though they've been a little less rock bottom than

they had been over the previous month, with rates inching up slightly across the board. We've stated our reasons for why we think rising mortgage rates would be good for the market, spurring activity being not the least of them. The fact is rates will likely remain subdued through summer. We base our prognostication on the Federal Reserve's latest economic outlook, which expects continued sluggishness due to elevated uncertainty.

<b>Economic Indicator</b>	<b>Release Date and Time</b>	<b>Consensus Estimate</b>	<b>Analysis</b>
Housing Market Index (July)	Mon, July 19, 10:00 am, et	17 Index	Important. More homebuilders are anticipating a post-tax-credit rebound.
Housing Starts (June)	Tues, July 20, 8:30 am, et	570,000 (Annualized)	Important. Starts are expected to bottom before improving slightly in coming months.
Mortgage Applications	Wed, July 21, 7:00 am, et	None	Important. Refinances appear to have plateaued, while purchases continue to sag.
Existing Home Sales (June)	Thurs, July 22, 10:00 am, et	5.3 Million (Annualized)	Important. Given the recent trend in purchase applications, the drop in the sales rate is no surprise.
FIFA House Price Index (May)	Thurs, July 22, 10:00 am, et	None	Important. A slight drop in prices should be expected, though recent data suggest a stabilized price trend.
Leading Indicators (June)	Thurs, July 22, 10:00 am, et	0.2% (Decrease)	Moderately Important. Renewed economic concerns are already priced into the market.

## We Need More Risky Lending, Not Less

The *Wall Street Journal* recently published a cautionary tale on the putative rise of risky lending (“Signs of Risky Lending Emerge”). We only hope the tale is true, because a rise in risky lending reflects a rise in risk taking, and more risk-taking is what this economy needs to pull itself out of its doldrums.

Many people will reflexively respond “Wasn't it risky lending that got us into this predicament in the first place?” Actually, it wasn't. It was the *mispricing* of risky lending that got us into this predicament. If a loan is correctly priced – through interest rates, fees, or collateral – then, theoretically, all loans would be expected to generate the same return to investors. The problem wasn't the risky loan, per se; it was the pricing of the loan, which failed to fully account for risk.

Once the mispricing problem was realized, lenders tended to go the other way, shutting out borrowers with lower FICO scores and only lending to those with the highest scores. It was a case of throwing out the baby with the bath water. Obviously, we all want the borrower with the 800 FICO score, the 20 percent down payment, and the steady job, but we also want the less pristine borrower as well.

If the *Journal* is right, and more lenders are warming up to more risky borrowers (we find that's the case), that bodes well for the economy, because it means more risk taking, more housing-market activity, and more money to lend.



*This Mortgage Matters compliments of*

**Sam Suznevich**

**253-863-1113**

**Nikki Rosdahl, Assistant**

[sam@sumnerhomemortgage.com](mailto:sam@sumnerhomemortgage.com)

[nikki@sumnerhomemortgage.com](mailto:nikki@sumnerhomemortgage.com)

[www.sumnerhomemortgage.com](http://www.sumnerhomemortgage.com)



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