



MORTGAGE MATTERS...

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Keeping you updated on the market!
For the week of

June 21, 2010

MARKET RECAP

Some people are just unsure of where they're going. We'll slot homebuilders into this category. After posting steady gains over the past few months, the National Association of Homebuilders/Wells Fargo Housing Market Index tanked five points to 17, which means homebuilders have turned sour once again.

The mood change is understandable, given that housing starts sank to their lowest levels in five months. The numbers are hardly encouraging: starts fell 10 percent in May from April to a seasonally adjusted annual rate of 593,000 units. The good news is that compared to the same time last year, starts are up 7.8 percent.

The drop should have been anticipated. In the previous two months, improvements were driven by federal tax credits, which are now gone. We've noted in past editions that the current activity pattern isn't unprecedented, using the purchasing patterns in automobiles as an example. After the cash-for-clunkers program expired, auto sales plummeted, but then recovered steadily over subsequent months. The fact is, we are transitioning from a government-aided recovery to a more-sustainable market-based one. And while it takes time for the transition to occur, it won't be pain free.

Even though new homes aren't getting the attention from potential buyers that homebuilders desire, more people are buying – at least that appeared to be the case last week. The Mortgage Bankers Association reported that purchase activity rose 7.3 percent, halting a plunge that took the measure the prior week to the lowest level since 1997.

Refinances were also on the upswing last week, thanks to more borrowers believing mortgage rates are about as low as they can go. Our mantra on the subject remains unchanged: rate decreases will be marginal at best. Many borrowers, though, are relentless bargain hunters and want the absolute best rate possible, which leads to the inevitable question: should I lock shortly after applying or wait until the closing date is near?

Sometimes the decision is made for you; some banks require a lock when the application is sent. Many borrowers wish to lock as soon as possible anyway. We suggest that once the rate is locked you stop checking rates; there is no sense stirring up feelings of remorse over a few basis points. Life is too short.

On the other hand, some borrowers are risk accepting (at least that's what they say), and they want those few basis points. To those people we say “go for it,” but only if they are willing to accept the very real risk, and won't be driven to agony, by a rate spike. No one, us included, can know with certainty where rates will be 30 days from now. But if the choice is between noticeably higher or noticeably lower, we'd side with the former.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Existing Home Sales (May)	Tues, June 22, 10:00 am, et	6.07 Million (Annualized)	Important. Despite the lack of tax credits, sales are expected to hold steady.
FIFA House Price Index (April)	Tues, June 22, 10:00 am, et	None	Important. Prices should post a slight increase on a buying surge.
Mortgage Applications	Wed, June 23, 7:00 am, et	None	Important. Another increase in purchase activity could suggest renewed buyer interest.
New Home Sales (May)	Wed, June 23, 10:00 am, et	470,000 (Annualized)	Important. Markets are expecting a post-tax-credit hangover.
Federal Reserve FOMC Meeting	Wed, June 23, 2:15 pm, et	Federal Funds Rate: 0.0% to 0.25%	Important. The Fed will continue to hold short-term rates near zero.
Durable Goods Orders (May)	Thurs, June 24, 8:30 am, et	0.9% (Decrease)	

			figures have been volatile.
Gross Domestic Product (1st quarter 2010)	Fri, June 25, 8:30 am, et	3.0% (Annualized)	Moderately Important. This final revision shows slightly slower economic growth than first anticipated.

How Risky is this Market?

The May/June edition of the *Financial Analyst Journal* featured an article titled “Dimensioning the Housing Crisis” (available for download at CFAinstitute.org). The article is noteworthy for encapsulating the problems of the housing market in a mere 12 pages.

The article is replete with sundry graphs, most of which accentuate just how bad things got over the past two years. One graph features the spike in first-time defaults; another features the seemingly exponential growth in housing overhang; yet another features the precipitous drop in cure rates for 30-day, 60-day, and 90-day delinquencies. The author notes, in pointed prose, that “we have a housing problem that affects 11 million to 12 million units. If nothing is done, more than one homeowner out of every five will face eviction.”

It's a pessimism-inducing article, to be sure, but we remain upbeat nonetheless. Reason being, these problems are well documented today, which means there are few shocks left to rock the market. What's seen isn't what kills, it's what's unseen.

Savvy buyers know that the time to buy isn't when everything is dear but when everything is disdained. Everything in housing isn't disdained, but sentiment remains low. So, we ask ourselves, was it riskier to buy a house in 2006 or is it riskier to buy one today? The sentiment feels riskier today, but the data show that 2006 was overwhelmingly riskier.



An Affiliate of Seattle Bank
614 Harrison Street, Sumner, WA 98390



This Mortgage Matters compliments of

Sam Suznevich

253-863-1113

Nikki Rosdahl, Assistant

sam@sumnerhomemortgage.com

nikki@sumnerhomemortgage.com

www.sumnerhomemortgage.com



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