



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

May 31, 2010

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Keeping
up-to-date
on market
fluctuations
allows you
to bring
greater
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MARKET RECAP

Is news really news if it had already been anticipated? We're referring to April's housing numbers, which everyone anticipated and which surprised few. Existing home sales rose 7.6 percent compared to March's numbers to a seasonally adjusted annual rate of 5.77 million units while sales of new homes soared 14.8 percent to a seasonally adjusted annual rate of 504,000 units.

Under more conventional circumstances we'd be tempted to break out the bubbly on such a bullish report, but we all know why sales spiked in April – impending expiration of the federal homebuyer tax credits. The credits were a useful band-aid, to be sure, but they were no panacea. As we've stated in past editions, they simply moved demand forward without aggregately increasing it, and they really moved it forward in April.

We're even less tempted to break out the bubbly when vetting the latest pricing data. On that front, the Standard & Poor's/Case-Shiller home price index showed that prices of single-family homes were down 0.5 percent between February and March, the sixth consecutive month-over-month decline. Year-over-year prices are up 2.3 percent nationally. Meanwhile, the median price on existing homes increased 4 percent to \$173,100 in April while the median price on new homes tumbled 9.6% to \$198,400, as those who took advantage of the tax credits did so with cheaper homes.

This isn't to say that we are discouraged. We think the market is simply in a holding pattern at the moment, with inventory levels holding relatively steady at an 8.4-month supply on existing homes and at a 6.2-month supply on new homes. Some reservation is understandable; no one is really sure how the housing market will react to standing on its own heading into the prime buying season. We remain optimistic, because we think the data suggest it will keep moving forward.

Meanwhile, the refinance market remains robust, and why shouldn't it with rates on 30-year-fixed rate loans regularly found below 5 percent and rates on 15-year fixed-rate loans regularly found below 4.5 percent? For many borrowers, it's an opportune time to save a lot of money over the long haul by refinancing to a 15-year loan from a 30-year loan.

Of course we'll warn once again that good deals don't last forever. The turmoil in Europe has helped push rates down a few basis points, but rumblings for change are emanating from the Federal Reserve. Recent minutes of the latest Fed meeting show a growing number of its banks want to raise the rate charged to banks on emergency loans, which is a sign of confidence in the economic recovery. It's worth remembering that as the economy improves, the opportunity to get a bargain-basement mortgage rate decreases.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Construction Spending (April)	Tues, June 1, 10:00 am, et	0.1% (Decrease)	Important. Improvements are being driven by residential spending.
Mortgage Applications	Wed, June 2, 7:00 am, et	None	Important. Purchase applications tumble on a stimulus-induced hangover.
Pending Home Sales (April)	Wed, June 2, 10:00 am et	106.2 Index	Important. Markets are expecting a sustained sales trend after the tax-credit expiration.
Productivity & Costs (1st Quarter 2010)	Thurs, June 3, 8:30 am, et	Productivity: 3.6% (Increase) Costs: 1.7% (Decrease)	Moderately Important. Productivity continues to hold inflation at bay.
Factory Orders (April)	Thurs, June 3, 10:00 am, et	1.0% (Increase)	Moderately Important. Orders are reflecting greater capital investment.
Employment Situation (May)	Fri, June 4, 8:30 am, et	Unemployment Rate: 9.8% Payroll: 425,000 (Increase)	Very Important. Employment continues to improve, but markets are expecting additional improvement in the private sector.

An Alternative Take on Mortgage Rates

Given further easing of mortgage rates over the past two weeks, we obviously think it's an opportune time to refinance. Rates have maintained record lows as investors seek safe-haven assets such as US Treasuries, to which rates on long-term mortgages are closely tied, and securities backed by mortgages that are guaranteed by the government.

While low rates are sending refinance applications up, many borrowers who would normally refinance already have. What's less clear is the impact low rates will have on home purchases going forward. Yes, they'll allow more borrowers to qualify for loans, and some potential buyers will find they are able to afford slightly larger loans at lower rates, but low interest rates by themselves aren't a primary demand driver.

In fact, we have a contrarian view on low rates, believing they are actually harming sales more than helping them. Rising rates would not only be reflective of greater economic activity, they would spur more people into action. As it is now, too many people remain on the sidelines who shouldn't be there. A nudge from the prospect of higher mortgage rates would spur them into action. We still expect that nudge to occur.



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