



MORTGAGE MATTERS...

Keeping you updated on the market!

For the week of

August 17, 2009

MARKET RECAP

The queue to climb aboard the recovery bandwagon continues to lengthen. The *Wall Street Journal* surveyed a gaggle of the best-and-brightest economists and found the majority of them believe the recession that began in late 2007 is over. In fact, many of these economists expect gross domestic product to grow 2.4% in the third quarter of 2009, spurred by inventory adjustments and strong demand for the “cash for clunkers” car-rebate program.

Reversal of fortunes in the housing sector has also turned many an economist's frown upside down. Existing-home sales in the second quarter of 2009 showed robust gains, according to the latest survey by the National Association of Realtors. Total sales of existing homes rose 3.8% to a seasonally adjusted annual rate of 4.76 million units in the second quarter from 4.58 million units in the first quarter. The news that 39 states experienced increases was particularly encouraging.

Meanwhile, home prices continue along their road to recovery. For the country as a whole, median sales prices rose 4% in the second quarter versus the first quarter, pushing the median price up to \$174,100. Many metropolitan areas appear to be on a bullish tear of sorts: San Francisco posted an 18% gain; Boston, a 16% gain, Washington D.C., a 14% gain; Dallas, an 11% gain; and Chicago, a 10% gain. Even more encouraging, thoroughly routed Phoenix and Miami posted price gains, albeit slight – both were up 1% for the quarter. One data point does not make a trend, to be sure, but quarterly sales prices have been dropping every quarter since mid-2007, so this upswing is notable. Now we'll just have to see if it is sustainable.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Housing Market Index (August)	Mon, Aug. 17, 1:00 pm, et	18 Index	Important. Sentiment among homebuilders continues to build positive momentum.
Housing Starts (July)	Tues, Aug. 18, 8:30 am, et	600,000 (Annualized)	Important. A fourth consecutive increase is another sign the worst is over for homebuilders.
Producer Price Index (July)	Tues, Aug. 18, 8:30 am, et	All Goods: 0.2% (Decrease) Core: 0.1% (Increase)	Important. Producer-induced inflation remains a non-issue for the immediate future.
Mortgage Applications	Wed, Aug. 19, 7:00 am, et	None	Important. Application activity eases on the up tick in interest rates.
Leading Indicators (July)	Thurs, Aug. 20, 10:00 am, et	0.4% (Increase)	Important. The indicators suggest we are well down the road to an economic recovery.
Existing Home Sales (July)	Fri, Aug. 21, 10:00 am, et	4.99 Million (Annualized)	Important. Lower prices and bargain hunting continue to drive sales.

One Person's Misfortune, Another Person's Opportunity

Foreclosure activity jumped 7% in July from June and 32% from a year earlier, as one in every 355 households with a loan received a foreclosure filing, according to RealtyTrac. It's not good news, but it's not a catastrophe either, since foreclosures, like real estate, are local: California, Florida, Arizona, and Nevada accounted for almost 57% of total U.S. foreclosure activity in July.

It's worth remembering that foreclosures, though bestowing misfortune on some, create opportunity for others. For real estate investors and home buyers, RealtyTrac's data can be a road-map to finding good deals. Not every foreclosed home is a gem, to state the obvious, but there are plenty of low-priced properties just begging for a qualified buyer.

What's more, foreclosed homes aren't the full-blown headache they used to be. "Foreclosed homes" used to be an off-putting term to many in the industry. Agents were unfamiliar with them and banks didn't always know how to dispose of them. But over the past 18 months, both sides have grown more comfortable with foreclosures. In turn, the process of buying a home in default has become both simpler and quicker.

It's also worth remembering that price isn't the sole determinate of affordability. Mortgage financing is the other important component. On that front, rates remain affordable, with the prime 30-year fixed-rate loan hovering around 5.5%. That said, we think mortgage rates are unlikely to fall much lower and that higher rates are in our future, so anyone considering a first or second home or an investment property should consider jumping aboard that bandwagon before it leaves the station.



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