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**From:** Sam Suznevich  
**Sent:** Monday, January 04, 2010 7:34 AM  
**Subject:** FW: Your Weekly Newsletter from Sam Suznevich

# MORTGAGE MATTERS...

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

**January 4, 2010**

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## **MARKET RECAP**

Is it better to get it right or get it fast? Most of us would prefer the former, though there are some who appear to prefer the latter. To wit, “Bad News for Housing: Prices Flattening” was the headline for a recent CNNMoney.com report, which went on to state that the S&P/Case Shiller Home Price index was “unchanged in October.”

Problem is, that’s not what happened: The S&P/Case Shiller index actually posted fifth-consecutive gain in October, edging up 0.4%. Admittedly, the index is showing signs of weakening: When the index started improving in July, 14 of 20 markets posted price increases. In August and September, 18 of 20 markets posted price increases. In October, the number dropped to 8 of 20.

It’s worth considering that October might have been the high point for unemployment. In November, the unemployment rate dropped, so we wouldn’t be surprised to see some improvement in November’s home-price figures. But we appear to be in the minority. Most forecasts predict price declines in 2010. Fiserv Lending Solutions, a financial analytics firm, forecasts that prices will fall in all but 39 of the 381 markets it covers, posting an average drop of 11.3%. Meanwhile, Moody’s forecast calls for another 8% drop.

We are familiar with the reasons for why home prices will fall: an expected pick up in foreclosures, which will be exacerbated by strategic defaults, or people deliberately walking away from their mortgage obligations as the value of their homes dips below the amount they owe.

The pessimistic punditry could be over-discounting two important factors: First, if employment is turning around, more people will be working, which means fewer

people will be inclined to simply walk away from their homes – regardless if they are upside down or not. Second, the number of pre-foreclosure filings in many of the heaviest hit areas is dropping. According to Default Research, Los Angeles County , Clark County ( Las Vegas ), and Miami - Dade County all experienced considerably fewer filings in November compared to October. We can't say it's the start of a trend, but we can say what it is – an obvious improvement.

We feel more secure in saying we see a trend forming in mortgage rates. For the past five weeks, rates have been trending higher. It's a trend we see continuing in 2010. Expectations are for the yields on mortgage bonds and the 10-year Treasury note to be 75 basis points higher a year from now, which would likely put the 30-year fixed-rate mortgage near 6%.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Construction Spending (November)	Mon, Jan. 4, 10:00 am, et	0.4% (Decrease)	Moderately Important. Commercial spending is contracting to absorb an inventory glut.
Pending Home Sales (November)	Tues, Jan. 5, 10:00 am, et	111.5 Index	Important. Buyers continue to take advantage of affordable prices and low mortgage rates.
Factory Orders (November)	Tues, Jan. 5, 10:00 am, et	0.5% (Increase)	Important. Recent increases in orders suggest an increase in economic activity.
Mortgage Applications	Wed, Jan. 6, 7:00 am, et	None	Important. Rising rates should motivate more fence sitters to refinance or buy.
Federal Reserve FOMC Minutes	Wed, Jan. 6, 2:00 pm, et	None	Important. The Fed is expected to show greater bias toward sustainable economic growth.
Employment Situation (December)	Fri, Jan. 8, 8:30 am, et	Unemployment Rate: 10.1% Hourly Wages: 0.2% (Increase)	Very Important. The consensus expects a leveling of the unemployment rate, but an improvement could send mortgage rates higher.
Consumer Credit (November)	Fri, Jan. 8, 3:00 pm, et	\$4 Billion (Decrease)	Moderately Important. Consumers are becoming less averse to using credit.

### The Most Important Correlation: Employment and Housing Prices

Stating that there is a positive correlation between employment and housing prices seems like an exercise in stating the obvious, and it is. But it's worth delving into. CalculatedRisk.com posted an enlightening graph on that relationship on its Web site (<http://www.calculatedriskblog.com/2009/12/are-homes-now-cheap.html>). Not

surprisingly, when employment improves, loan performance and housing prices follow.

CalculatedRisk's data suggest that housing prices tend to lag improvements in the unemployment rate. But since its housing-price data only date back 23 years, no meaningful conclusion can be drawn. This year, housing prices have actually been improving ahead of the unemployment rate. Tax credits and record low mortgage rates are the immediate explanation, but they are not the complete explanation. There are too many impacting variables – known and unknown – to fully explain the phenomenon.

Of course, we think employment is the most important variable, and the data support that notion, which is why if we see a two-percentage point or better improvement in the unemployment rate, most of the dire housing predictions are unlikely to be realized. We'll get a better sense of what to expect on that front with Friday's employment situation.



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