



# MORTGAGE MATTERS...

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*Keeping you updated on the market!*  
For the week of

**September 7 , 2009**

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## MARKET RECAP

A few months ago, we felt as if we were the only ones on the hilltop shouting, “buy.” That is no longer the case, as others have taken up the charge, evinced by the fact that more people continue to buy. Further proof of purchase activity was offered last week when signed contracts to buy homes in July increased 3.2%, marking the sixth straight monthly increase and the longest continual streak since record keeping began in 2001.

It's a good thing buyers are buying, because those easy deals could soon be a memory. Clear Capital's Home Data Index, which features data compiled through August 25, showed that prices increased 7.3%, while the saturation of real estate owned properties dropped three percentage points to 30.1% over the past four months compared to the previous three months. On a metropolitan basis, 28 of 30 major markets saw improving REO saturation rates when compared to a month earlier. In a prepared statement, Clear Capital President Kevin Marshall said, “Buyers are getting nervous that they are missing the bottom of the market, so they’re choosing to get in the market now. These factors greatly increase the chances of a springtime recovery next year.”

We agree with Mr. Marshall's assessment, except we think a recovery is occurring now. Better housing data, such as a rise in the S&P/Case-Shiller index, have helped stocks extend a heady rally. (The Dow Jones Industrial Average – a reliable leading indicator – is up over 40% since early March.) Meanwhile, the one-time government tax credit for first time buyers and seasonal demand for homes have added a timely boost to the economy.

Yes, concerns remain. Demand remains weak for homes in high price categories. The NAR says just 2.5% of the 460,000 homes sold in July cost \$500,000 or more. Five years ago, such homes accounted for 11.2% of the total. Negative equity remains an issue as well. According to First American CoreLogic, the national average has 32% of mortgagors underwater.

Of course, unemployment is the greatest concern. The cycle of high unemployment numbers leading to a downward trend in the housing market is nothing new or complicated to comprehend. On that front, the U.S. jobless rate jumped to 9.7% in August as employers cut another 216,000 jobs. The increase in the unemployment rate exceeded forecasts, but the cut in actual jobs was smaller than anticipated. What's more, it is a substantial improvement from earlier monthly job cuts this year, which totaled as high as 700,000.

<b>Economic Indicator</b>	<b>Release Date and Time</b>	<b>Consensus Estimate</b>	<b>Analysis</b>
Consumer Credit (July)	Tues, Sept. 8, 3:00 pm, et	\$4.5 Billion (Decrease)	Moderately Important. Credit use continues to fall, but at a moderating pace.
Mortgage Applications	Wed, Sept. 9, 7:00 am, et	None	Important. Activity has slipped but should rebound on recent rate dips.
Beige Book	Wed, Sept. 9, 2:00 pm, et	None	Moderately Important. The beige book should supply further evidence of an improving economy.
International Trade (July)	Thurs, Sept. 10, 8:30 am, et	\$27.5 Billion (Deficit)	Moderately Important. Oil prices will expand the deficit, though the deficit remains low by contemporary standards.
Import Prices (August)	Fri, Sept. 11, 8:30 am, et	0.9% (Increase)	Important. Recent postings suggest import prices remain non-inflationary.
Wholesale Trade Sales (July)	Fri, Sept 11, 10:00 am, et	0.6% (Increase)	Important. Increases in sales and low inventory levels set the stage for improved labor demand.

### *We Remain Bullish*

There are many reasons to remain bullish on housing; none more compelling than record affordability. The average middle-income family can now spend less than 25% of monthly income to buy a median-priced home, according to NAR lead economist Lawrence Yun, who adds that house payments as a percentage of income are at a record low.

Mortgage rates continue to contribute to Mr. Yun's affordability calculations. Last week, the benchmark 30-year fixed-rate mortgage fell 12 basis points to average 5.41%, the benchmark 15-year fixed-rate mortgage shed nine basis points to average 4.74%, and the benchmark 5/1 adjustable-rate mortgage dipped one basis point to average 4.94%, according to Bankrate's latest national survey. In other words, rates remain near historical lows.

How long they will remain there is anyone's guess. We have warned that it will be difficult for rates to sustain these low levels, and we still believe that, though they might be able to sustain them longer than we initially believed. Wage-induced inflation – a significant inflation source – remains a non-issue. In fact, worker productivity – the output of work per hour – increased at an annual rate of 6.6% during the second quarter, posting its best improvement since the summer of 2003.

When the economy picks up, and it will, rates will pick up as well, so it is unreasonable to expect to purchase a home for less than 25% of monthly income into perpetuity.



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