



MORTGAGE MATTERS...

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Keeping you updated on the market!
For the week of

March 29, 2010

MARKET RECAP

When is “bad news” actually good news? When it's not as bad as the consensus thought it would be. Sales of existing homes fell a third-consecutive month to a 5.02-million annual pace in February, but the consensus was expecting five million. The difference might seem like a rounding error, but the equity markets responded favorably, with the Dow Jones Industrial Average posting a 100-point gain on Tuesday.

But what the market giveth, it can also taketh away. On Wednesday, new-home sales were posted to have declined to an annual rate of 308,000 units in February; the consensus expected a 320,000 annual rate. It was the lowest sales level since the government began tracking housing statistics in 1963. The Dow reacted by returning 50 of the 100 points it posted the previous day.

Some backsliding is obviously occurring. Inventories of existing homes increased 9.5% to 3.59 million units available for sale, which represents an 8.6-month supply at the current sales pace. Meanwhile, new homes increased to a 9.2-month supply.

It's worth remembering though that February was a particularly rough month, meteorologically speaking. Severe weather was the norm across large swaths of the nation, and was the predominant variable in the across-the-board sales decline. Fortunately, severe weather always abates. We'll likely see improvement in March's sales numbers.

Meanwhile, prices continue to stabilize. The median price for an existing home held steady at \$165,100 in February, while the median price of new homes inched ahead to \$220,500. We don't read too much into national price numbers, but there is a favorable psychological factor to seeing markets outside our own improving. Of course, it's even more favorable when we see improvement in our own market.

Speaking of improvement, don't expect to see any with mortgage rates – again. Yes, rates continue to hold near record lows, but they're not going lower. In fact, toward the end of the week they were heading higher (on lackluster demand for Treasury notes).

And there's a new variable favoring higher rates. On Friday, the Obama administration announced a plan requiring lenders to temporarily slash or eliminate monthly mortgage payments for unemployed borrowers. The administration said costs would be shared between the private sector and the federal government. The intentions might be good, but if the plan is implemented, costs to lenders are likely to increase. Increased costs are invariably passed on to borrowers through higher rates or more stringent underwriting guidelines.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Personal Income & Outlays (February)	Mon, March 29, 8:30 am, et	Income: 0.1% (Increase) Outlays: 0.3% (Increase)	Important. Markets are expecting no real increase in either income or outlays.
S&P Case/Shiller Home Price Index (January)	Tues, March 30, 9:00 am, et	None	Important. Seasonal factors – namely weather – will likely lead to a slight drop in home prices.
Consumer Confidence (March)	Tues, March 30, 10:00 am, et	49.5 Index	Moderately Important. Consumers remain uncertain on the prospects for a sustained economic recovery.
Mortgage Applications	Wed, March 31, 7:00 am, et	None	Important. The rise in purchase applications suggests improved home sales for March.
Construction Spending (February)	Thurs, April 1, 10:00 am, et	1.1% (Decrease)	Important. Weather and contracting commercial construction will weigh most on overall spending.
Employment Situation (March)	Fri, April 2, 8:30 am, et	Unemployment Rate: 9.7% Hourly Wages: 0.2% (Increase)	Very Important. The recent trend in jobless claims suggests a possible improvement in employment numbers.

Times A Wastin'

We might sound like hectoring parents, but there are times when it's worthwhile to keep pounding a point. Such is the case with mortgage rates. We know rates are low today, but we won't know if rates will be low tomorrow – and we're speaking literally: Only a few days remain before the Federal Reserve withdraws from the mortgage-backed securities market (an important funding source), leaving pricing to a much more profit-oriented private market.

Bankrate also pointed out that the spread between 10-year Treasury notes and 30-year fixed-rate mortgages is near a 10-year low. Government backing of Freddie Mac and Fannie Mae has made mortgage-backed securities seem comparable to Treasury securities in risk, but they are not. If risk appetite decreases, even slightly, we could see a noticeable increase in mortgage rates.

Finally, let's not forget that homeowners must be under contract by April 30th and must close by June 30th in order to qualify for the homebuyer tax credits. Is it possible the credits could be extended? Sure, but it's hardly certain, so is it really worth chancing?

In short, today we're faced with the possibility of expiring tax credits and the probability of higher mortgage rates. This is why we continue to hector for locking in a purchase or a refinance loan as soon as possible.



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