
Subject: FW: Your Weekly Newsletter from Sam Suznevich

From: Sam Suznevich

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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

December 7, 2009

MARKET RECAP

Saying "I told you so" is rarely a good idea. At the least, it is boorish behavior. More often, you find you've spoken too soon, so not only have you alienated a few of your colleagues but you also find yourself eating a bitter slice of humble pie. So we refuse to say, "I told you so."

That said, we are at least mildly pleased that the housing market continues to confound the naysayers (those pundits who insist on focusing on the clouds while ignoring the silver linings). It happened again last week when pending home sales rose for the ninth-consecutive month, posting a 3.7% gain in October (after posting a 6% gain in September). The consensus estimate for October ranged from no change to a 1% decline.

This persistent increase in home sales indicates to us that the housing market is unlikely to backslide. What's more, the pending-home sales index has been running ahead of the existing-home sales figures, which hints at continued improvement in actual sales in coming months, particularly if we see additional loosening in the credit markets.

The naysayers were further confounded by homebuilder news. On that front, residential home construction rose 4.4% in October, more than recovering from a 2% dip in September. It was the biggest monthly gain in private residential spending since March 1998.

Of course, the naysayers will point out that the surge in housing activity in October was due to the impending expiration of the federal first-time homebuyer's tax credit. Their point is valid. We're sure a portion of sales were driven by buyers

seeking to beat the deadline, but we can't forget that the trend over the past six months has been up, before there was any push at all.

Last week we warned that change at the FHA was on the horizon. This week it appears the horizon is upon us. Housing and Urban Development Secretary Shaun Donovan confirmed that his agency is drafting new policies, including raising FICO scores, dropping maximum seller concessions, and increasing up-front cash on FHA-insured loans. In addition, HUD wants to hold lenders responsible for their origination quality and increase compliance reviews. Lenders would be required to indemnify the FHA for losses resulting from their failure to meet FHA requirements and will be sanctioned nationally for any improper activities rather than through the FHA's current policy of sanctioning individual branches.

In short, the cost of FHA-insured loans will rise, which means they will be available to fewer borrowers. And if HUD's plan to increase lender accountability prevails, fewer lenders will offer FHA-insured loans.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Consumer Credit (October)	Mon, Dec. 7 3:00 pm, et	\$9.5 Billion (Decrease)	Moderately Important. Consumers continue to reduce revolving debt to more manageable levels.
Mortgage Applications	Wed, Dec. 9, 7:00 am, et	None	Important. Purchase applications are rising on growing homebuyer interest.
Wholesale Trade (October)	Wed, Dec. 9, 10:00 am, et	No Change	Important. Sharp inventory reductions could stimulate future production.
International Trade (October)	Thurs, Dec.10, 8:30 am, et	\$36.5 Billion (Deficit)	Moderately Important. The trade deficit is expanding on a weak dollar and higher commodity prices.
Retail Sales (November)	Fri, Dec. 11, 8:30 am, et	0.4% (Increase)	Important. Overall sales are rebounding after a late-summer dip.
Import Prices (November)	Fri, Dec.11, 8:30 am, et	1.0% (Increase)	Important. Recent increases in import prices are raising the risk of dollar-based inflation.
Consumer Sentiment (December)	Fri, Dec.11, 8:30 am, et	68.2 Index	Moderately Important. Sentiment continues to improve with the economic outlook.

The Federal Reserve and Mortgage Rates

There is another reason why we think saying “I told you so” is a bad idea: It can be thrown back in your face. For the past few months we've been forwarding an argument for rising mortgage rates, and yet they keep moving down. Should we toss in the towel? Not yet. We still think rates are destined to move up. The relationship between the Federal Reserve and the mortgage market might help explain why.

The Federal Reserve has done everything in its power to push mortgage rates down to record lows over the past year, and it has succeeded primarily by purchasing an unprecedented \$1.5 trillion worth of mortgage-backed securities. This Fed-created demand has helped drive down mortgage rates. Some economists believe the Fed's purchases have resulted in a full percentage point drop in rates.

But the purchases won't go on forever. Last week the Fed stated that it would begin testing a strategy to shrink its portfolio of mortgage-backed securities. One variant is to taper off its purchases of mortgage backed securities. If that is indeed the case, the wheels toward higher rates will start turning.

We don't expect mortgage rates to spike, as any move will be gradual, but it's worth noting that as private operatives move in to fill the void, their objectives will differ from the Fed's: Their objective won't be to drive down mortgage rates, it will be to make money.



This Mortgage Matters compliments of

Sam Suznevich

253-863-1113

Nikki Rosdahl, Assistant

sam@sumnerhomemortgage.com

nikki@sumnerhomemortgage.com

www.sumnerhomemortgage.com



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