
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

November 30, 2009

MARKET RECAP

After the pummeling housing starts took last week, we thought a spillover (at least on a national level) into other areas of the housing market was inevitable. That was hardly the case, especially in the existing-home market, where sales increased a whopping 10.1% to a 6.10 million annual rate in October to post the highest increase since February 2007. What's more, the spike in sales helped drop inventory to a 7.0-month supply compared to an 8.0-month supply in September.

Even more surprising, sales of new homes rebounded 6.2% in October to an annual pace of 430,000 units, the highest level since September 2008, helping push the number of unsold new homes to a four-decade low. Many pundits pointed to the federal homebuyer's tax credit (which is quickly becoming the default sales explanation) for the improvement. Yes, the credit helped, but to a lesser extent for new homes. We think more buyers simply felt more confident to undertake a major purchase when the price was right.

And the price is still right – for buyers, at least. But that paradigm might be changing. Home prices in 20 major metropolitan areas rose for a fourth-consecutive month in September, according to the S&P/Case-Shiller home-price index, which increased 0.27% after increasing 1.13% in August.

For all the talk of unemployment and foreclosure overhang, continued improvement in existing- and new-home sales could be forthcoming. Home sales will continue to receive support from the extension and improvement of the homebuyer's credit. More important, they will also receive support from an improving economy.

Perhaps we are already experiencing the effects of both factors. The Mortgage Bankers Association reported purchase applications increased 4.82% last week.

The MBA noted there was some slight distortion in the report due to revisions in the prior week's data, but we were encouraged, nonetheless, given the recent decline in purchase activity over the previous few weeks.

Another week, another record low for mortgage rates. With a steady job, a good credit rating, a 20% down payment, and varying points and fees, any of the major prime loans can be had for under 4.75% these days. But we think it's worth repeating that rates can only go so low – and with the dollar depreciating against the world's major currencies, the fed funds rate effectively set at zero, and gold trading near \$1,200 an ounce, incremental improvements will be slight at best.

Economic Indicator	Release Date and Time	Consensus Estimate	Analysis
Construction Spending (October)	Tues, Dec. 1, 10:00 am, et	0.5% (Decrease)	Important. Residential spending should remain positive, but a contraction in commercial spending will weigh on the index.
Pending Home Sales (October)	Tues, Dec. 1, 10:00 am, et	No Change	Important. After September's spike, pending sales are expected to level off.
Mortgage Applications	Wed, Dec. 2, 7:00 am, et	None	Important. Purchase applications are rising on renewed buyer interest.
Productivity & Costs (3rd Quarter 2009)	Thurs, Dec. 3, 8:30 am, et	Productivity: 8.9% (Increase) Costs: No Change	Important. Soaring productivity means employee-induced inflation is under control.
Employment Situation (November)	Fri, Dec. 4, 8:30 am, et	Unemployment Rate: 10.2% Hourly Wages: 0.2% (Increase)	Very Important. The consensus says unemployment will maintain October's levels, though many economists are skeptical.
Factory Orders (October)	Fri, Dec. 4, 10:00 am, et	0.4% (Increase)	Moderately Important. Manufacturing continues to be the economic bright spot.

FHA Now, Not Latter

Last week we mentioned people often need to be nudged into action. The Federal Housing Administration's precarious financial position could be providing that nudge for many fence-sitting borrowers. A recent actuarial study found the FHA's insurance fund reserves are far below the congressionally mandated minimum. FHA officials confirmed they are actively exploring ways to replenish these reserves.

This means we're likely facing costlier FHA-insured loans. Raising lending standards is an obvious starting point. We also wouldn't be surprised to see higher minimum down payments: Proposals are being bandied about to increase the minimum to 5% from the current 3.5%. (We've heard some chatter suggesting 10% isn't impossible.) An increase in the up-front mortgage insurance premium to the statutory maximum of 2.25% is another option, as is increasing the monthly installment fee.

The generous allowance for seller contributions to borrowers to offset settlement and loan-related fees could also be on the chopping block. The current FHA limit is 6% of the house price, which critics argue is excessive. A few commentators have suggested Congress could order maximum concessions down to as low as 2%.

We can't say for sure what will happen, but we feel confident saying something will happen. So if anyone is contemplating a FHA-insured loan, now is the time to stop contemplating and start acting.



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