

the Mortgage Commentary

January 2006

Your Company Name
100 Main Street
Hometown, CA 00000
Phone: 123-456-7891
Cell: 456-789-1234
Fax: 789-1011-1213
pnewman@yourcompany.com
rredford@yourcompany.com
www.yourcompany.com



Paul Newman
Don't you wish



Robert Redford
Wish again

Your Logo Goes Here



Ashley Judd
We can dream

Your Logo Goes Here

Star Realty
123 Main Sreet
Anytown, CA 90000
Phone: 888-888-0000
Cell: 999-999-0000
Fax: 888-888-8888
name@realty.com
ajudd@starrealty.com
www.juddstar.com

Goodbye 2005 -- Hello 2006

As years go, the year 2005 was an interesting one to say the very least. It was a year filled with earthquakes, floods, hurricanes and fires, not to mention war and political unrest. So with little regret, we can all say goodbye to 2005.

What about 2006? No way to know about earthquakes, floods, and so forth, so this Commentary will be devoted to other things that also defy accurate prediction. Things like the economy, interest rates, and the four year old question about a housing bubble.

The economy appears to be on sound footing.

The unemployment rate at 5% is good and is likely to remain pretty close to that figure throughout 2006. During 2005, over 2 million new jobs were created. Most analysts predict a similar figure for 2006. So, employment and jobs look fine for 2006.

Expect further advances in technology to increase worker productivity and also to create new opportunities for both employees and the self employed.

Corporations, by and large have been making solid profits a happy situation which is likely to continue in 2006. This strength will increase competition for workers, and therefore some upward pressure on wages. Higher wages means more income for home buyers.

Potential clouds on an otherwise clear horizon are: rising prices for oil and gas — energy sources. The optimistic among us are not too worried about rising energy prices, relying on the premise that this will spark an increase in creative solutions for alternative energy solutions.

Inflation, the main (and only) threat to bonds and long term interest rates reared its ugly head during 2005. It appears,

however, that the succession of rate hikes by the Federal Reserve has tamed the inflation beast.

Those who consider the price of gold a sure indicator of future inflation have expressed alarm as the price surged to \$515 per ounce, nearly double the December 2000 figure of \$260. Others believe this increase is due more to supply/demand than inflation expectation. It is hard to ignore the historical significance of the price of gold, so the gold price trend remains a concern.

The 2005/2006 transition will be marked by Ben Bernanke replacing Alan Greenspan as chairman of the Federal Reserve. Look for Bernanke to replicate Greenspan in the near term.

It is a near certainty that the Fed will add another quarter percent to the Fed Funds rate on January 31st. And Bernanke may want to impress by taking another hike in March. Then we'll see how he reacts to any future economic crisis that will inevitably arise.

All of the foregoing combine to create a positive picture for mortgage interest rates and home values in 2006.

Expect mortgage rates to rise a bit, but not enough to pose a problem for home buyers. Rates will continue to lend support to home values.

Favorable mortgage rates, combined with a strong economy and increases in buyers' incomes should create a tough and probably an impenetrable skin on the housing bubble. So it won't pop.

All things considered, 2006 should be a very good year for those seeking a home, and as well for the real estate and mortgage businesses.

It looks like 2006 will indeed be a Happy New Year.

It is important to make sure your mortgage picture is current and appropriate for the present. Get a mortgage check-up.

Junk Mail Avalanche

Mortgage rates are rising, and along with this increase, look for a corresponding increase in financing offers that are too good to be true. Your mailbox will be full of them in the coming months.

But, as the old saying goes, “if it sounds too good to be true, it probably is.” Here are some examples.

The offer: “Get a fixed payment at 1 1/2%, saving you thousands of dollars in monthly payments.”

The truth: The initial payment is based on 1 1/2%, but that rate is good for only a month. The payment is fixed each year, but the interest rate is not. Making the minimum payment will grow your loan balance (negative amortization).

The offer: “Save thousands of dollars in interest. Enroll in our bi-weekly payment program.”

The truth: You pay an enrollment fee and usually an annual fee, and make half of a monthly payment each two weeks. The effect is that you will be making one additional payment each year, thus accelerating the principal reduction which also shortens the term of the loan.

So, you do save interest with a bi-weekly mortgage payment, but there is no reason to pay to have this done. Do it yourself.

Above are only two examples of offers you will be getting in your mail box. The list is endless.

When you get offers like this — call us, and fax a copy of the offer. We will quickly examine it. We're used to determining the truth of sometimes misleading offers that are too good to be true.

Equity Lines

A home equity line of credit (Heloc) secured by your home, can be a valuable tool, providing quick and easy access to funds for many purposes: to buy a car, to pay off credit card debt with a lower rate, for down payment on a second home, or for a bridge over troubled financial waters.

So it makes sense to have an equity line standing by. However, since most equity lines are based on the WSJ Prime Rate, interest rates on HELOCs have been increasing right along with each Federal Reserve hike since June, 2004. Most Fed watchers believe that we are in for at least one and probably two more rate increases, taking the prime rate from 4% in June 2004 to 7.500% or 7.75% in 2006. That's a hefty increase.

In spite of this expectation, an open equity line still makes sense. However, if you have an outstanding balance on your HELOC, it is time to evaluate your overall mortgage situation for potential improvements.

Perhaps a refinance to roll your HELOC and present first loan into one loan should be considered. Or perhaps replacing your variable rate HELOC with a fixed rate second is a wise thing to do.

Either of these options would not only protect against rate increases, but could also reduce your blended interest rate and even save on your monthly payment.

Individual financial and personal situations change, the economy changes. It is important to make sure your mortgage picture is current and appropriate for the present.

Call for a mortgage check-up. It's well worth the fifteen minutes.

Your Logo Goes Here

