

the Mortgage Commentary

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Can it be 2007 already?

“Time stands still for no man” somebody once said, or wrote, and with the swift passing of each year, the truth behind the quote becomes more apparent and unavoidable.

It seems only yesterday that we were concerned about the melt-down at the turn of the century because computers couldn’t handle the date change. That concern turned out to be misplaced and was quickly replaced by other concerns.

Suddenly now, six years later, we enter a new year, with new concerns, a few of which we address in this Mortgage Commentary. Specifically we address economic concerns, mortgage rates, and the lingering concern about the housing bubble. First, the economy.

On June 29th, the Federal Reserve took the last (for awhile, at least) of seventeen hikes in the Fed Funds rate. These hikes were designed to prevent inflation by taking the heat of an economy that the Fed feared was expanding too fast.

It is the responsibility of the Federal Reserve to strike a balance between an economy that grows too fast (thus leading to inflation) and an economy that grows too slow (thus leading to recession). The goal in this recent series of rate hikes was to achieve an economic “soft landing.” That is an admittedly difficult task since it takes between six and nine months for Fed actions to impact the economy.

What about 2007? It appears that the Fed has achieved its goal. Inflation is only slightly above the desired 1% to 2% range, unemployment remains low, and the economy, on balance seems healthy.

While there is hope that the Fed will soon lower rates, it is too early to predict when this might happen, or even if the next move will be to reduce rates.

Watch the PCE (Personal Consumption Expenditure) index for clues. This inflation indicator is watched very closely by the Fed. At last reading (November) the PCE was unchanged at 2.2%, slightly above the desired 2% level. In all probability, it will

take two to three months with the CPE at 2% before the Fed will lower the Fed Funds rate. An optimistic view is that this may occur in late 2007.

What about mortgage rates? During 2006, fixed rates remained remarkably flat. The Jumbo 30 Year Fixed Rate was 6.25% a year ago, compared to 6.375% today while the Five/One ARM, was 6% last year compared to 6.125% today. That’s very flat year over year, but there were intervening ticks up and down.

There is nothing on the horizon to cause concern about a significant increase in mortgage rates during 2007. If pushed to make a forecast (translate: “guess”) we believe rates may soften a bit in late 2007. Again, it is likely that rates will move up and down during the year, but in a very narrow range.

Ah, now to the much discussed and consuming fear of the housing bubble.

Most of the hype about a bursting bubble is based on national figures and all housing markets are, of course, local.

So while it is true that some markets softened during 2006, and may continue to soften during 2007, it is important to look at your own market — and your own house.

Softening occurred, for the most part, in prices of investment and second homes, and in areas of weak job markets.

But prices for owner occupied homes in areas with strong job markets held up very well. Reasonably priced homes in these market areas continue to sell, although the time required to sell has expanded somewhat.

Compared to the overheated housing market in 2005 and earlier, the bay area housing market in 2006 did cool a bit. But that is NOT bad news, really, for either home owners or buyers.

Buyers and sellers alike can approach a transaction with more time to make reasonable decisions. There’s nothing wrong with a balanced market.

Conforming Loans to \$417,000

Type	Rate	APR	Trend
30 Yr FIX	6.125%	6.111%	↑
5/1	5.875%	7.369%	↑

Jumbo Loans over \$417,000

30 Yr FIX	6.250%	6.311%	→
10/1	6.250%	7.306%	↓
5/1	6.125%	7.422%	→
10 Yr Bond		4.775%	↑
Prime		8.250%	→

Move-up transactions

The March, 2006 Mortgage Commentary devoted the front page to a discussion of how to structure a “move up” transaction. If you have misplaced that issue, and you are considering selling your present home and buying a new one, let us know and we’ll send you an archived copy.

Be advised, however, that we are dealing with a slightly different housing market than was the case in March, 2006. Houses are taking a bit longer to sell than they were then, and so the risks of buying first, selling later are greater.

This is not to say that you should not buy first and sell later, but you should perhaps weigh the risks differently.

If your present home is in a highly desirable area, and in great selling condition, and your Realtor can give you some assurance of a quick sale at an acceptable (to you) price, then you may decide to buy first then sell.

But, if the homes in your area are staying on the market for months, even with what you consider realistic sales prices, you might want to sell first, and buy later. Even if this means that you will have to rent for awhile, that could be preferable to lying awake nights waiting for your house to sell and worrying about making two house payments.

Some of the sting of making two payments can be mitigated by refinancing your present home. Making payments on a fifteen year amortizing loan, for example will be much more painful each month than payments for a thirty year interest only loan, or even a “negative amortization loan.”

Talk to your loan consultant about options, how to structure move up financing, and differences in affordability between buying first and selling first.

Myths explored and exploded

Credit scores, as everyone reading this Mortgage Commentary is likely to know, play a very important role in mortgage financing. They are also important in other financing and the rates you pay for insurance, among other things, but we are most concerned with the impact on mortgage loans. To that end, we explore and explode some myths with respect to credit scores.

Myth #1: If I have some old credit cards I don’t use, cancelling them will raise my credit score.

To the contrary, old credit is better than new credit. So, if you want to cancel unused credit cards, cancel newer ones. Make a few charges, from time to time on your old credit cards to keep them active.

Myth #2: It is preferable to have only one credit card than to have multiple cards.

No, it is not. It is better to have three cards, each with a limit of \$5,000 and balances on each less than \$2,500 than it is to have one card with a limit of \$10,000 and a balance of \$7,500. This is because your credit score is higher with loan balances less than 50% of the limit. So, do the math and adjust your balances if you can.

Myth #3: If I am about to apply for a mortgage loan and my credit report shows a collection filed three years ago (God forbid), I should pay it off immediately.

Absolutely not. The blind eye of the credit scoring system records “recent activity related to collection” and does not (hard as this is to believe) note the difference between a collection filed and a collection paid. So wait until close of escrow to pay off any collections.

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