

the Mortgage Bulletin

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"The universe is merely a fleeting idea in God's mind - a pretty uncomfortable thought, particularly if you've just made a down payment on a house."

~Woody Allen

Encouraging signs

First, an "inconvenient truth." Good news for the economy is almost always bad news for mortgage rates. Or put another way, you can't have a strong economy and low mortgage rates.

Thus it is that in the perverse world of mortgage brokers, signs of economic revival are greeted with mixed emotions. On the one hand, we know that mortgage rates are likely to rise, causing short term pain. On the other hand, economic revival produces more home purchases and more demand for mortgages to finance them.

Let's take a look at some recent signs that are somewhat encouraging as far as the economy is concerned.

Although the stock market itself is not an indicator of economic strength or weakness, it reflects a mood about the future. And mood is not to be ignored.

Last week, the stock market grew for the third week in a row. The Dow grew by 262.80 points, or 3.1 percent, to 8,763.13. That brings it to within .2% of where it was at the end of 2008. That's good news because it had fallen by 25% between December 31 and March 9.

During April, construction spending actually and unexpectedly rose by .8%, the largest gain since last August: another sign that the economy may be bottoming out.

Although the loss of 345,000 jobs in May might sound like bad economic news, it is perceived as good news because the loss was less than the prediction of 520,000. Furthermore, 345,000 lost jobs looks great compared to the more than 700,000 per month during the first three months of the year.

The University of Michigan and Reuters released a survey of consumer sentiment last Friday: a reading of 68.7, the highest level since last September. The April

figure was 65.1 and economists had expected 68.

A reading of 68.7 is not a "hot" number, since the average over the last ten years has been 88.2. But bear in mind it reached 55.3 last November.

Consumer sentiment is important since improved sentiment leads to an increase in spending, and consumer spending accounts for about 70% of our Gross Domestic Product.

None of the foregoing indicates a surging economy, but more likely an economy whose rate of descent has at least leveled out.

Increasing evidence of an economic recovery will almost certainly lead to rising mortgage rates.

A rising stock market will also contribute to higher mortgage rates as funds flow from the safe haven of bonds into equities.

But an economic recovery and a rising stock market are certainly acceptable trade-offs to higher mortgage rates.

Economic recovery means more jobs and thus more people with not only the desire (the desire is always there) but also the ability to purchase homes.

Likewise rising stock values creates the "wealth effect." People feel wealthy and more comfortable spending - for consumer goods and - houses.

So although nobody greets rising mortgage rates with enthusiasm, a more vigorous economy will bring with it more real estate transactions and a healthier housing market.

If we want to be optimistic (and we do) we can also greet with enthusiasm the slow but steady re-emergence of jumbo mortgage loans. It's only a trickle so far, but a trickle is better than a dry stream. Jumbo loans are coming back.



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