

the Mortgage Commentary

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Conforming Loans to \$417,000

Type	Rate	APR	Trend
30 Yr FIX	6.125%	6.215%	→
5/1	5.750%	6.632%	→

Jumbo Loans over \$417,000

30 Yr FIX	6.500%	6.637%	↑
10/1	6.250%	6.686%	↑
5/1	6.000%	6.676%	↑
10 Yr Bond		4.550%	↑
Prime		7.000%	→



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There is no housing bubble in sight

It is doubtful that you will see the major print media using such a headline as the one above. It wouldn't sell papers.

Make no mistake, fear sells more papers than good news. And what is more fearful to home owners and buyers than headlines proclaiming a housing bubble about to burst?

The media, knowing this full well has trumpeted warnings about a housing bubble for four years. But have these dire predictions come true?

Ask a simple question — what has happened to buyers who put off purchasing a home four or three or two years ago out of fear that the housing bubble was about to burst? Here's an answer.

The buyer who did not buy the \$482,300 home (median price for the SF Bay Area) in 2002, has "lost" \$131,700 because the median price rose to \$614,000 by the end of October, 2005.

But past is not always prologue, you might say. What about the future? Here are some thoughts about that.

One of the most important factors in determining home values is employment. Jobs provide the money for down payments and monthly payments. Good job picture, good housing picture. Lousy job picture, lousy housing picture.

Unemployment in California is holding at a very solid 5.1%, barely above the 5% national figure. And in California employment is expected to increase by 1.7% in 2006. This is a very good figure, and the continuing job strength should contribute to increased demand for housing.

So how about housing supply? Look around at your area. How many houses are on the market compared to a year ago? How many houses are selling each month?

Divide the number of listings by the number sold each month and you get the absorption rate. If there are 80 houses

listed and 20 are selling each month, you have 4 months inventory.

Nationwide the figure is slightly above 4, which is a 32 year low. Kind of hard to justify fear of a housing bubble with this kind of an absorption rate, isn't it? So, watch your area and if it significantly rises to more than 6 months, then there may be some cause for concern.

What is the prospect for creating additional housing stock (inventory) in your area? Is there plenty of undeveloped land lying around waiting for homes to be built, or are buildable lots scarce as the proverbial hen's teeth? The less the potential for creating additional housing stock the more likely values will hold or increase.

And don't let the media convince you that rising rates will prick the housing bubble. Remember that mortgage rates really react to only one thing and that is inflation, or fear of inflation. And while there are some signs of mild inflation, overall it seems to be in check. It also seems that the Fed will continue to monitor the situation and apply the brakes as necessary.

Mortgage rates will probably rise, but are likely to remain in the 7% range throughout 2006, perhaps nudging up against 8%. Even if rates climb 1% from present levels, a \$650,000 loan would cost a buyer only \$100.00 more per week. That's not enough to slow the purchase market appreciably.

And if the rapidly escalating prices slow down a bit, think what that might mean. Buyers would be less inclined to make offers out of desperation — just to get a house. And sellers would be more realistic about their expectations. Sounds like a normal healthy housing market. And that's not a bad thing.

But — housing bubble? There is no housing bubble in sight.

Greenspan's policies will quite likely continue, so no impact on mortgage rates as the result of Greenspan's departure.

New Fed Chairman

Alan Greenspan, Fed Chairman for 18 1/2 years will retire in January, 2006. His likely successor will be Ben Bernanke, a past member of the Fed's Board of Governors and presently Chairman of the President's Council of Economic Advisors.

Bernanke's impeccable credentials notwithstanding, the financial community's initial reaction to the President's choice was cautious. He was thought to be less of an inflation hawk than Greenspan and the bond markets immediately reacted negatively.

Since then, Bernanke soothed skeptics by saying that he plans to continue Greenspan's policies, and markets have calmed as the result.

Bernanke is a believer in maintaining a neutral monetary stance which is interpreted to mean that he wants to keep the Fed Funds rate at about 1.5% above the inflation rate.

Meantime, Greenspan is expected to continue his announced "measured pace" of increases, thus a .25% increase in each of the next two FOMC meetings, taking the Fed Funds rate to 4.5% by the end of January, when he retires.

An inflation rate of 3% at that time would see Bernanke and the rest of the Federal Reserve Board pause and reassess the need for continuing increases.

To the extent Bernanke demonstrates vigilance toward inflationary pressures, mortgage rates should remain relatively steady.

Bottom line: Greenspan's policies will quite likely continue, so no impact on mortgage rates as the result of Greenspan's departure.

New conforming limits

Last month, the Mortgage Commentary speculated that the new conforming limit for single family loans would perhaps be as much as \$385,000. And based on this speculation, together with the passage of H.R. 1461 by the U.S. House of Representatives, we computed the new limit for a single family conforming loan could be \$577,000.

Remember H.R.. 1461 would put the San Francisco Bay Area into the "high cost area" classification presently enjoyed by Alaska, Hawaii, Guam and the Virgin Islands, which pushes the conforming limit to 150% of the national ceiling.

As of the moment, there is good news and bad news. The good news is that the new (national) conforming limit for single family loans is \$417,000!

The bad news is that the U.S. Senate has not yet followed the lead taken by the House in adding the San Francisco Bay Area, and other deserving markets to the high cost category.

To re-compute the result of the high cost designation being applied to the San Francisco Bay area, just figure 150% of \$417,000. The result is a new limit of \$625,500.

This is significant, and since the normal difference between jumbo and conforming loans is from .250% to .375%, the monthly payment differential for a \$625,000 would be from \$102 to \$153 per month. This warrants a letter, call or e-mail to your Senator. Do it today.

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