

the Mortgage Bulletin

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Conforming Loans to \$359,650

Type	Rate	APR	Trend
30 Yr FIX	5.875%	5.956%	→
15 Yr FIX	5.625%	5.506%	→
5/1	5.625%	6.293%	↑
3/1	5.500%	6.371%	↑

Jumbo Loans above \$359,650

30 Yr FIX	6.250%	6.311%	↑
15 Yr FIX	5.875%	5.973%	→
10/1	6.000%	6.1293	→
7/1	6.000%	6.359%	→
5/1	5.750%	6.337%	→
10 Yr Bond		4.361%	↑
Prime		6.750%	→

Greenspeak is clear, for a change

Federal Reserve chairman Alan Greenspan, master of enigmatic speech, spoke with uncharacteristic clarity in an appearance before the senate budget committee last week. Comments by Greenspan usually go through labored study by economic experts to decode what he means by what he says, and what the implications are if their interpretations are correct. It is a difficult task.

Interpreting Greenspeak can be compared to wine tasting and critiquing, although wine tasting is more fun for most people.

First, you swirl wine in the glass and sniff the fragrance. (You scan the text and take a deep breath.)

Then you take a small amount into your mouth and swoosh it around without swallowing. (You isolate a sentence and read it through five to ten times.)

Then you spit it out and strain to invent fresh and understandable winespeak to describe the wine such that wine aficionados or wine connoisseurs will understand. (You put down the paper and try to come up with understandable language to explain what you are not sure you understand yourself.)

Greenspan said in part: "Indeed, under existing tax rates and reasonable assumptions about other spending, these projections make clear that the federal budget is on an unsustainable path, in which large deficits result in rising interest rates and ever-growing interest payments that augment deficits in future years."

It doesn't take many swooshes in your mouth to discern that Greenspan is issuing a clear warning about the dangers of continuing budget deficits. Swoosh: large deficits cause interest rates to rise, causing higher deficits, causing higher interest rates, causing higher deficits -- etc. Wait, don't spit it out yet. His warning becomes starker. "But most important, deficits as a per cent

of GDP in these simulations rise without limit. Unless that trend is reversed, at some point these deficits would cause the economy to stagnate - or worse." This is very clear. If the administration and congress fail to get our fiscal house in order, the economy will stall out - or worse. And the or worse part is most worrisome. Could it mean recession?

So what does all of this mean to mortgage interest rates, home prices, and such things? Until evidence surfaces that our deficit is starting to shrink, short term and long term interest rates are likely to climb.

Some homebuyers will take out financing with shorter fixed rate terms or interest only loans to stretch their borrowing/buying capacity. Others will opt for the security of long term fixed rates to the extent they can afford to do so, or buy lower priced homes.

Sellers should keep a sharp eye on interest rates because -- as mortgage rates rise, the number of potential buyers will decrease. The impact on their selling price or value may be tempered by the demand/supply balance in their price range and location. Meantime, what can any of us do? Do we all just whistle a happy tune?

The Weekly Bulletin is not politically partisan, but if Greenspan's warnings are warranted, and it would be difficult to find a responsible person who says they're not, something must be done and soon to rein in deficits. Politicians will argue how to accomplish the daunting task of returning to the balanced budgets that we enjoyed for a brief period of time. Kicking this political can further down the road for short term partisan gain is neither wise nor responsible. If our elected representatives can construct a nonpartisan bridge over partisan differences and stop and reverse the trend of damaging deficits, then we all can indeed whistle a happy tune.

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