

# the Mortgage Bulletin

**Your Company Name**  
 100 Main Street  
 Hometown, CA 00000  
 Phone: 123-456-7891  
 Alternate: 456-789-1234  
 yourname@your company.com



Your name  
 Your Logo Goes Here

## Housing Bubble?

How many print media columnists does it take to create a housing bubble? Answer: “they can’t, but they can create fear of a bursting housing bubble.”

Nobody faults the media for wanting to increase circulation and profits, not that they write these fear inducing articles for that purpose. But, a huge part of the public either owns a home or wants to, so any story suggesting a bursting bubble is bound to attract readers. Just don’t let media stories become self fulfilling prophecies or convince you that a bubble is about to burst. Just as all politics is local, so is the threat or reality of a housing bubble.

It is important to remember the “drivers” that determine property values. The following comments sound obvious however; the obvious can be obscured by the background noise of media hype.

**FIRST: SUPPLY VS DEMAND.** When the supply of housing is less than demand, housing values are pushed up. When the supply is greater than demand, values are pushed down.

What is your local situation in this regard? Is the housing inventory significantly above demand? Are there more sellers than buyers? Is the number of homes for sale (listings) greater or smaller than a year ago? Is the number of days it takes a listing to sell greater than it was a year ago? And further, how easy is it for additional housing stock to be created? Your Realtor can provide the answers to the above questions.

**SECOND: EMPLOYMENT.** A strong local economy with solid job growth is, of course a positive driver of home values. And, the opposite, local job loss is a negative driver.

Solid and growing employment is important because it provides income for down payments and house payments necessary to purchase homes. Without this

income, housing values would decline.

The employment picture is not the same everywhere in the country. So, how does it look in your area? Are local firms hiring new employees or are they cutting back and letting people go?

**THIRD: THE MORTGAGE PICTURE.** Plentiful mortgage financing at reasonable rates is a powerful driver in creating and sustaining property values.

What is the present financing environment? Are rates reasonable? Are lenders relatively cautious about making purchase loans or are they offering generous programs designed to promote home ownership? And, more important, what is the expected trend?

All of the preceding drivers are relatively positive. Even the mortgage picture. Rates have crept up a bit over the past couple of months, but they are still near historic lows and the recent increase has had little if any negative impact on potential home buyers. Certainly not enough to pop the bubble.

So – while it is possible the bubble will burst, it is unlikely. Most likely, the bubble will slow its precipitous ascent, level out, and may dip a bit – in some parts of some communities in some parts of the country. But a big bang? Doubtful.

Can buyers protect against a bursting bubble? Of course there is no guaranteed protection because nothing is certain; however, the risk of damage can be mitigated. Ask yourself some questions.

Is your job (income) secure? Can the combination of equity and your reserves withstand a dip in your home’s value during the anticipated time you will own it? And -- don’t create your own bubble by paying an exorbitant price. In the words of an ancient philosopher, “don’t be an idiot.” Rely on the advice of a competent (and ethical) Realtor.

### 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%	→

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