



Newsletter Vol. 10 Issue 6

June 2013

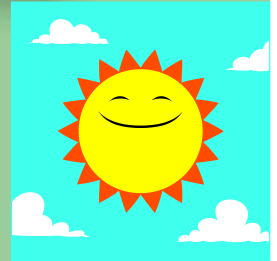
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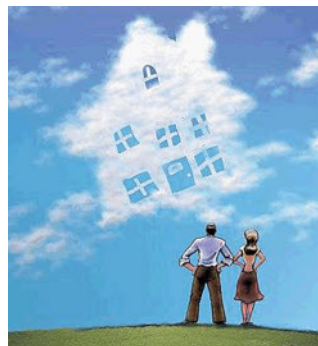
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another spring slowdown for the US economy. The April Employment report helped alleviate those fears, however, against a consensus forecast of 155K, the economy added 165K jobs in April. The bigger news was that the figures for February and March were revised higher by 114K. With the revisions, the economy added an average of more than 200K jobs per month during the first quarter. The Unemployment Rate unexpectedly declined from 7.6% to 7.5%, the lowest level since December 2008. Without a doubt, the data was significantly stronger than expected, which is good news for the economy. But for mortgage rates, it was bad news for a couple of reasons. It increases future inflation expectations and it moves the Unemployment Rate closer to the 6.5% target which may cause the Fed to scale back its bond purchase program.

The Fed concluded its highly anticipated meeting on Wednesday. Prior to the release of its statement, investors, expecting to see



clearer signs of support for an increase in the magnitude or the duration of the bond buying program, pushed up the price of Treasuries and mortgage-backed securities (MBS). The Fed statement was little changed from the last statement, however, causing MBS prices to lose their earlier gains. The Fed will continue asset purchases until the labor market improves "substantially". The primary change to the statement was the addition of the language that the Fed is "prepared to increase or reduce" the pace of its asset purchases based on changes in its outlook for the labor market and inflation.

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Unemployment Rate Falls (Week ending 5/3/2013)

During a week packed full of major economic news, the big market mover was Friday's stronger than expected Employment report, and mortgage rates ended the week higher. This week's Fed and ECB meeting announcements produced some volatility but had little net impact.

Following a dismal March Employment report and weaker than expected first quarter GDP data, investors were concerned about

Jobless Claims Decline (Week ending 5/10/2013)



While last week was packed with central bank meetings and major economic data, there was very little significant economic news this week. The small amount of data that was released this week reinforced the view that the labor market is improving. This is great for the economy, but bad for mortgage rates, and rates ended the week higher.

This week's reading for Weekly Jobless Claims showed a decline to 323K, the lowest level since January 2008. This marked the third straight week that Jobless Claims were below the 350K level. Weekly Jobless Claims measure the number of new claims for unemployment benefits. There will always be some number of job changes each week, so there will always be new claims. In the years prior to 2008, Jobless Claims mostly held steady between 300K and 350K. The financial crisis then caused Jobless Claims to spike to levels above 600K during the first half of 2009. The labor market has been slowly improving since then, and it appears that Jobless Claims have finally returned to the levels seen before the financial crisis.

Jobless Claims are only one half of the employment story. The other big factor in the strength of the labor market is the number of people being hired. During a recession, companies often reduce the size of their workforce. As the economy recovers, companies first slow the pace of layoffs and then begin to retain their existing employees as business picks up. Eventually, companies reach the point where they need to add employees to meet growing demand. The stronger than expected Employment report last week and the recent Jobless Claims data provide positive indications that the economy may be at this point. Increased job gains will be great news for the economy and for the housing market.

Mixed Economic Data (Week ending 5/17/2013)

Mortgage rates have been highly sensitive to the economic data in recent weeks. Daily volatility has been high even from reports which usually produce a limited reaction. The balance of the data released this week was stronger than expected, which caused mortgage rates to end a little higher.

Following a much improved Employment report on May 3, mortgage rates have been in an upward trend for most of this month. The trend continued early in the week when the April Retail Sales report was stronger than expected. While the consensus was for a small decline, a slight increase was reported. Mortgage rates finally received some relief on Thursday, primarily due to the Jobless Claims report. Weekly Jobless Claims jumped to 360K, far above the consensus of 330K. After three weeks with readings below 350K, investors were disappointed by the results, which called into question the recent strength in the labor market.

The housing market data released this week was mostly positive. While April Housing Starts declined from the multi-year highs seen in March, mostly due to multi-family units, Building Permits jumped to the highest level since June 2008. Building Permits are a leading indicator of future building activity. In another positive sign, the May National Association of Home Builders confidence index increased significantly.



Fed's Influence on Mortgage Rates (Week ending 5/31/2013)

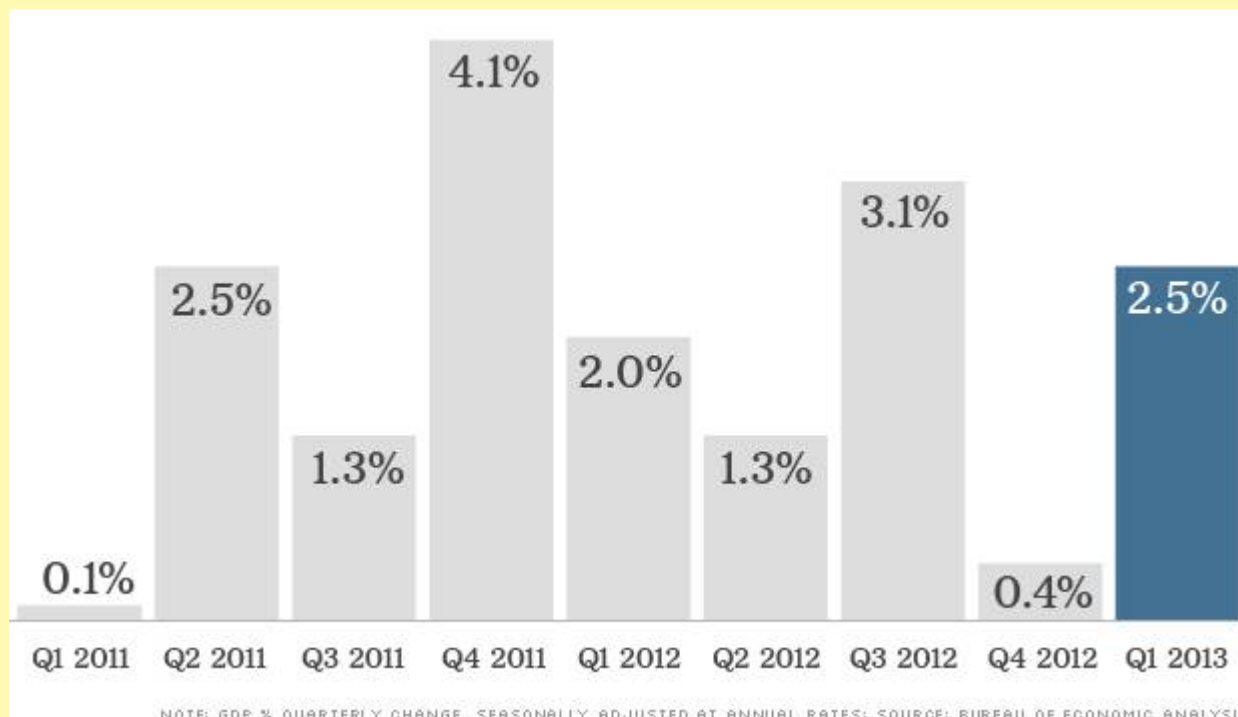
Shifting expectations for the timing of the Fed's move to taper its bond purchases were the main influence on mortgage rates this week and caused extremely high levels of daily volatility. Stronger than expected economic data and comments from Fed officials caused investors to think that the Fed will begin to scale back its bond purchases sooner than previously expected. As a result, mortgage rates ended the week higher.

With a decline in the Fed's bond purchases in sight, and an improved outlook for global economic growth, investors have grown less willing to own bonds. Central bank bond buying helped bond yields decline to historically low levels. Following the financial crisis, investors accepted these low yields in order to receive the safety of government guaranteed fixed income securities. Over the course of this month, however, sentiment has shifted and investors are demanding higher yields to own mortgage-backed securities (MBS) and other bonds. Since mortgage rates are largely determined by MBS prices, mortgage rates have moved higher.

Historically, shifting inflation expectations have been the primary cause of changes in MBS prices and mortgage rates, but not this month. Normally, as inflation expectations rise, so do mortgage rates, and vice versa. In May, though, this relationship did not hold true: Inflation measures have been falling, yet rates have been rising. The April Core Personal Consumption Expenditures (PCE) price index released this week was just 1.1% higher than one year ago. Core PCE is the Fed's preferred inflation indicator, and it's far below the Fed's long-run inflation goal of 2.0%. The Core CPI inflation report released last week also showed declining levels on an annual basis. This shift from the fundamental relationship between mortgage rates and inflation shows the enormous influence the Fed has had on mortgage rates.

U.S. ECONOMY REVVED UP, BUT IT MAY BE TEMPORARY

The U.S. economy accelerated at the beginning of the year, however, economists aren't very optimistic that trend will continue in the months ahead. Gross domestic product—the broadest measure of economic output—rose at a 2.5% annual pace in the first three months of the year, driven largely by a pick-up in consumer spending, the Commerce Department said. Consumer spending, which alone accounts for roughly two-thirds of GDP, rose at a 3.2% annual pace, the fastest pace since the end of 2010. At first glance, that's pretty remarkable, since most workers saw their take-home pay drop in January, following the end of the payroll tax cut. But the data also shows that consumers funded that spending in part by saving less. Americans saved an average of 2.6% of their disposable income in the first quarter, down from 4.7% at the end of 2012.



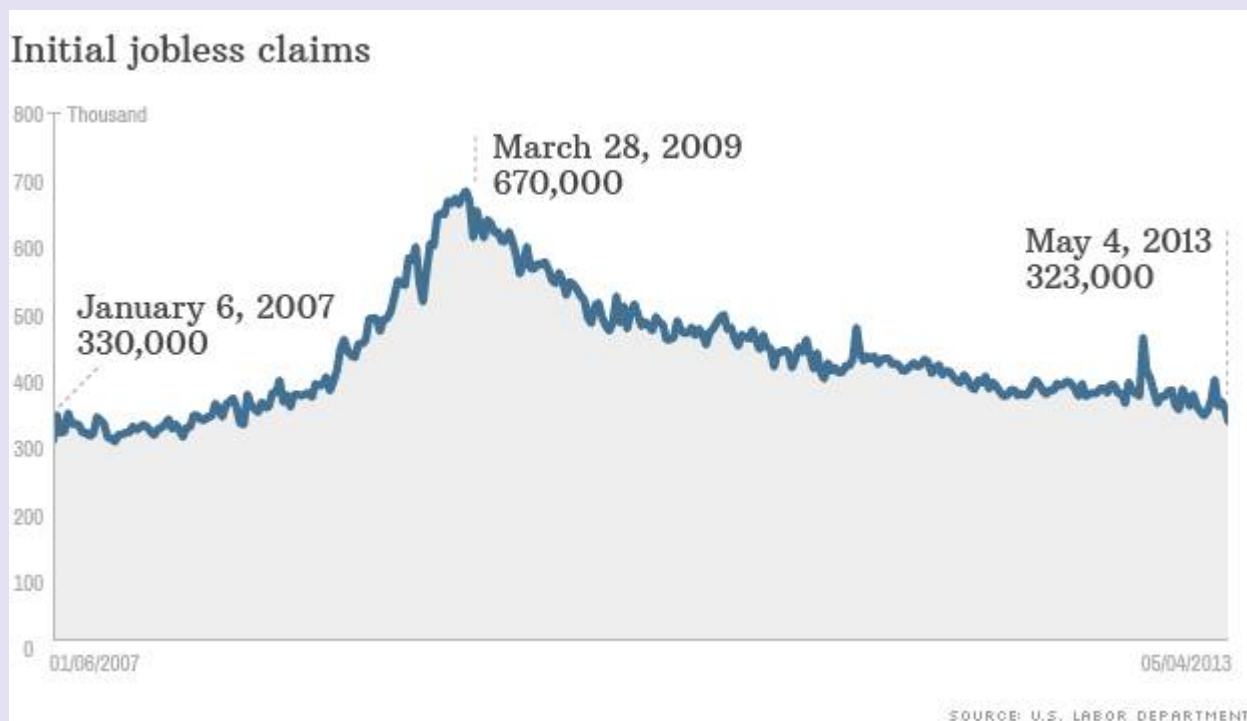
Households are drawing down savings, and they are borrowing to continue spending, this, obviously is finite and not sustainable. What are people buying? Primarily, more services. This too, is temporary in nature. Americans spent more on housing and utilities, which rebounded after slumping following Hurricane Sandy in the prior quarter. This past March was also the coldest since 2002, a weather pattern that boosted the demand for heating. Consumer spending on durable goods like autos also contributed to stronger economic growth—but to a lesser extent.

On the business side, investment in equipment and software added slightly to growth. An even bigger boost, however, came as businesses restocked their shelves and warehouses after drawing down their inventories in the fourth quarter. This effect is also likely to be temporary.

Meanwhile, cuts in government spending, mainly related to defense, dragged on the economy in the first quarter. The last two quarters marked the biggest six-month contraction in the federal government's economic activity since the months following the Korean War, which ended in 1953. Spending by federal, state and local governments is now lower than it was in mid-2007, before the recession began. Given the fiscal squeeze, it's rather impressive that the economy still grew 2.5% in the first quarter. Since the recovery began in mid-2009, the economy has grown an average of 2.1% a year. Once you strip out the government's spending, though, that growth looks more like 3.1%. It's becoming more and more clear that the public sector is the real thing holding the economy back now. Public-sector cutbacks are likely to continue dragging on the economy through the rest of the year as the federal government alone cuts \$85 billion over a seven-month period.

Economic growth isn't likely to be as strong in the second quarter. Other economic data already shows the economy may have lost some steam starting in March. Job growth slowed, retail sales slumped and the manufacturing sector showed signs of weakness. Overall, the first quarter GDP report was a bit of a letdown. Economists had been expecting the economy to grow at an even stronger rate of 2.8%.

JOBLESS CLAIMS FALL TO 5-YEAR LOW



Jobless claims fell to their lowest level in five years during the first week in May, signaling that layoffs are back to pre-recession levels. About 323,000 people filed for their first-week of unemployment benefits last week, the Labor Department said Thursday. That's the lowest level in a single week since January 2008, and corresponds with other data that show employers are laying off fewer workers.



Before the recession began in December 2007, it was common to see about 320,000 initial claims filed each week due to normal churn in the job market. Then, as firms slashed millions of jobs, weekly claims soared as high as 670,000 in March 2009. The drop in claims since then is seen as an encouraging sign that the job market is recovering. Overall, the U.S. economy lost 8.7 million jobs in the financial crisis, and has added back about 6.2 million jobs since then.

That said, high unemployment still lingers in the aftermath of the recession. Overall, 11.7 million people are still counted as unemployed, and about 3 million of them filed for a second week or more of unemployment benefits two weeks ago per the most recent data available.

Home sales continued to climb in April, according to the latest reading on the housing recovery from an industry trade group. The National Association of Realtors reported home sales edged up 0.6% to an annual pace of just under 5 million homes. Compared to a year ago, the pace of sales was up nearly 10%.

HOME SALES CONTINUE TO CLIMB

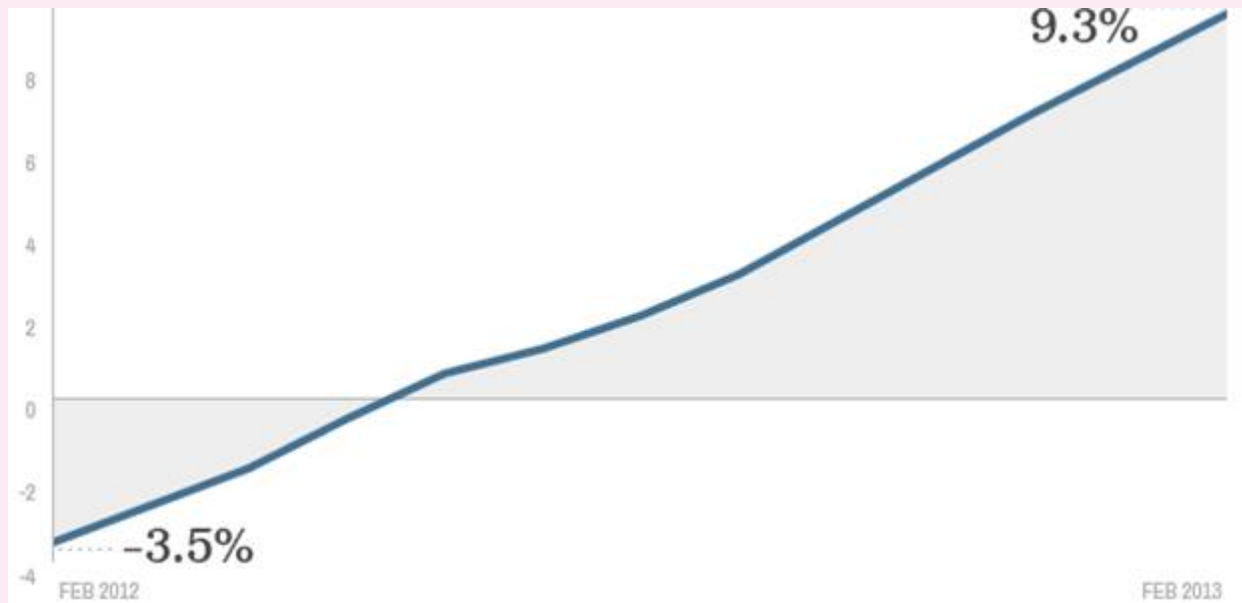


The pace of sales would have exceeded that level were it not for tight credit and insufficient houses for sale to meet rising demand, the group said.

"Without these frictions, existing-home sales easily would be well above the 5-million unit pace," said Lawrence Yun, the Realtors' chief economist. He said that customer traffic is up 31% compared to a year ago, showing greater demand than actual sales.

The recovery in the housing market so far this year has been a major driver of overall economic growth, lifting not just the pace of home building but also retail sales. Near record low mortgage rates coupled with improving unemployment, a drop in foreclosures and a tight supply of homes for sale have all combined to lift home prices.

The median price of a home sold in April was \$242,600, up 4% from March and 9% from a year ago. And the number of homes on the market represented a 5.2-month supply at the current sales pace. While that is up from March, it's down from a 6.6-month supply a year ago.



The percentage of sales considered distressed sales—homes in foreclosure or short sales in which the seller owes more on the home than the selling price—now represents only 18% of sales, down from 28% a year ago.

The pace of new home sales has been rising every month for nearly two years. The latest sales reading is the strongest level since November 2009, when sales were inflated by a short-term home buyer's tax credit.

THREE COMPLICATIONS FACING THE HOUSING RECOVERY



The housing market has made a big comeback over the past year; home prices have surged some 8% and homebuyers can't seem to buy up properties fast enough. But just as quickly as the market is gaining ground, some industry experts worry it may come crashing back to Earth. Here are three complications facing the housing market recovery:

1. **The housing recovery is being led by investors.** One problem is that investors are leading the latest surge in home prices. They are taking advantage of low interest rates and depressed home prices and when those rates and prices rise, they'll likely pull back. And while institutional investors and small but experienced mom-and-pop outfits have been buying many of the properties, there are a growing number of inexperienced "armchair investors" now buying into the boom—a sign that demand may be peaking.

In some hot markets, home prices should start slowing or even reverse gains. In Phoenix, where selling prices were up 23% year-over-year in January, many investors planned to rent out the properties they bought.

Yet, there was no comparable increase in rents and the rental vacancy rate in Phoenix is very high. As investors realize a low rate of return on their investments, demand softens.

2. **The economic recovery is just not strong enough yet.** "These days, I worry more about the economy hurting housing than housing hurting the economy," said Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, a Washington D.C.-based think tank.

He's especially concerned about employment. Hiring slowed significantly in March, with just 88,000 jobs added -- the weakest showing since last June. Meanwhile, half a million Americans withdrew from the workforce during the month; either because they stopped looking for work or retired and stopped drawing unemployment. Many were discouraged workers, a sign that the economy remains weakened. While Bernstein thinks the housing recovery will continue, he believes it will do so at a much slower pace. Once the jobs picture improves, he said strong pent-up demand for homes should emerge.



3. **Government cuts will hurt homeowners.** Headwinds from the current round of government spending cuts—\$85 billion worth—could also curb the housing market's recovery. The spending cuts from the sequestration [will] hit their apex this summer. The cuts, including unpaid days off for federal workers, cuts in unemployment compensation and decreased military spending, combined with the expiration of payroll tax breaks earlier this year, will lead to job and income losses that could strip about a percentage point off the GDP this year, according to Bernstein. And while current mortgage rates remain extremely low, about 3.5% for a 30-year, fixed-rate loan, they're bound to go up, the industry experts said, making it a lot more costly for people to afford homes. To get an idea of a neighborhood's prospects, ask local brokers if cash-only offers dominate.

TACTICS FOR BUYERS IN A SELLERS' MARKET



Six years after prices collapsed, housing has begun to climb out of its hole. So what are the best moves to make now? Real estate has finally started to bounce back across the country—even roar back in some places.

Low mortgage rates and pent-up demand have coaxed buyers back into the market, and homeowners who list their houses are seeing more traffic. That quaint relic of the bubble, the bidding war, has even started to reemerge in some cities.

Consider the mounting evidence that the long national real estate nightmare is over: During the past year, home prices increased in 92 of the country's 100 largest metropolitan areas, according to data provider CoreLogic, with prices rising as high as 23% in Phoenix and 17% in San Francisco. Sales volume rose in 69 of the top 100 markets, and 35 of those showed double-digit gains.

Yet while most economists agree that the bottom is behind us and the five-year outlook for housing is on solid footing, the shorter term is shakier: Two thousand thirteen and 2014 are going to be transition years. The market's improving, but it's not totally healed.

BUYERS

Thinking about buying a home? For the first time in more than half a decade, the economics of the market are working against you in most places. Inventory is tight, and bidding wars are back in some parts of the country. To snag your dream home, you'll have to pay up and contend with continuing strict loan requirements. The bright side: Despite rising prices and mortgage rates that are edging upward, buying a home is still cheaper than renting in the majority of the top 100 markets.

DON'T WASTE TIME WITH A LOW-BALL OFFER.

Yes, home prices are still way down from their highs, but the days when you could scoop up a house for 20% less than the list price are long gone. The typical home sells for pretty close to what the owners asked for, and even in shaky markets, sellers have gotten more realistic about pricing.

The median sales-to-list-price ratio in Detroit, for example, is 98%; the national number is 97%. (To find the figure for your market, go to zillow.com/local-info and click on "More metrics.")



Here's how to figure out how much to offer initially: In places where homes are still selling below list price but deals are being made in less than two months, come in no more than 2% to 3% below the asking price. Where homes are selling above the listing price, make your first offer the asking price.

Be the winner in a bidding war.

In January and February, 73% of agents said their clients' offers faced rival bids, an increase from 56% who reported this as being the case in the fall of 2011. You win bidding wars, of course, by raising your price; it also helps to have few contingencies and to move quickly, since today's sellers don't want multiple go-rounds. You have to give your best offer. Step up to the plate or walk away.

Be flexible about closing too: Quick deals—the median time on the market for homes is 71 days, down from 99 a year ago—have left many sellers scrambling for alternative housing. Leave the closing date blank on your contract for the seller to fill in, or negotiate a leaseback if the seller needs to stay put for a while.



OUTSMART THE PROS WHO BRING CASH.

Thinking about investing in a rental property in a downtrodden market before prices there really start to take off? To beat out the professional investors who have scooped up houses in these areas by offering all-cash deals, lead with your best offer; investors count on nabbing properties at a big discount and are unlikely to boost their bid by more than 5% to 10%. They'll just move on to another house. Also include a bank prequalification letter or statement of funds to show that your money is as reliable as investors' cash.

ASSESS THE RISK IN YOUR LOCAL MARKET.

Though prices have revived in most areas of the country, they don't all have the same staying power. In markets that bounced back last year merely because prices had fallen so far, you can't assume a continued streak; once investors clear out, demand will die down.

In rebounding markets, recent price gains might not last. Some near-term value setbacks may not be a problem if you plan to stick around for a long time, but a short time horizon calls for greater caution.



To get an idea of a neighborhood's prospects, start with the foreclosure rate heat map at RealtyTrac.com (click on "Stats & Trends" at the top). The deeper the color you see, the weaker the market's fundamentals. A broker should also be able to tell you whether cash-only offers dominate—a sure sign of an investor-driven market.

MORTY'S MAILBAG

There were no letters in the mailbag this month.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to be identified as "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is morty@mortgagestraightTalk.com

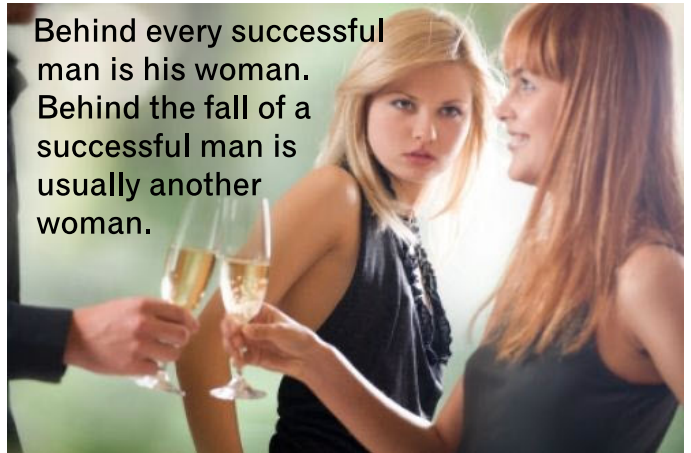
SPECIAL(S) OF THE MONTH

- Conforming 30 yr. fixed @ 3.625%
- Conforming 5/1 ARM @ 2.25%
- Conforming 5/1 Interest Only ARM @ 2.375%
- Jumbo 5/1 ARM @ 2.250%
- Jumbo 30 yr. fixed @ 3.75%
- FHA/VA High Balance Conforming 30 yr. fixed @ 3.375%
- VA Conforming 30 yr. fixed @ 3.250%
- HomePath 30 yr. fixed conforming @ 3.75%



MORTGAGE MIRTH

Behind every successful man is his woman.
Behind the fall of a successful man is usually another woman.



RATE SUMMARY

Rates have SOARED in the past 30 days



- *Conforming loan rates are .25% to .50% HIGHER ↑
- *Jumbos are similarly ¼ to ½ point HIGHER ↑
- *Governments are ¼ to ½ HIGHER ↑

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:

www.mortgagestraighttalk.com Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

