Newsletter Vol. 10 Issue 9

September 2013

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MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Consistent Fed Message (week ending 8/9/2013)

Following the roller coaster ride last week, this was one of the quietest weeks for mortgage rates in a very long time. While last week contained a Fed meeting Employment report, and GDP data, there was very little significant economic news this week, and mortgage rates barely changed.

In addition to a lack of major economic data, another reason for the limited volatility this week was that the message conveyed from the Fed was very consistent. The largest influence on mortgage rates in recent months has been shifting expectations for future Fed policy. According to the Fed officials that spoke this week, the Fed expects to begin to taper its bond buying program later this year. The exact timing will depend on future economic data. Investors currently expect that the tapering will begin in September or October. This means that the reaction to major economic data will continue to be exaggerated, as we saw on several occasions last week.

This week President Obama laid out his plan for restructuring Fannie Mae and Freddie Mac. It is very similar to what is being proposed in the Senate, so there were no big surprises. The primary component of the plan is to shift credit risk on mortgages from the government to the private sector. There was no time table provided, but any changes are expected to take years. The announcement created a lot of headlines, but did not have an immediate impact on mortgage rates and is not likely to affect rates anytime soon.

Taper Talk Hurts Mortgage Rates (week ending 8/16/2013)

This week, a broader consensus formed that the Fed will begin to taper its bond purchase programs in September or October and

investors reacted by selling U.S. stocks and bonds. The economic data released this week provided little reason for the Fed to wait, and the European data showed unexpected strength. As a result, mortgage rates ended the week higher.

The Fed's massive bond purchase program powered stocks to record highs and helped push mortgage rates to historic lows. The Fed has indicated that it is almost time to begin to scale back the program, and the only reason to wait would be unexpected weakness in economic growth. This week's labor market and Retail Sales data were stronger than expected, though, causing more investors to anticipate that the Fed will taper in the next month or two. Both stocks and bonds were negatively affected by the growing expectations.

Mortgage rates received additional upward pressure from the economic news out of Europe. After eighteen months in a recession, second quarter GDP in the euro zone increased modestly, exceeding the consensus. In particular, Germany and France performed well. The recovery in Europe caused global interest rates to rise this week, including US mortgage rates.

- July Housing Starts rose 6% from June
- Home Builder confidence rose to the highest lever in eight years
- Core CPI inflation was 1.7% higher than one year ago
- Jobless Claims declined to the lowest level since October 2007

Taper Timing (week ending 8/23/2013)

It was a volatile week for mortgage rates. The FOMC Minutes suggested that the Fed will begin to taper its bond purchases in the near future as expected, but a surprising decline in the New Home Sales data made that outcome less certain. After the offsetting influences, mortgage rates ended the week with little change.

The FOMC Minutes from the July 31 Fed meeting were released on Wednesday, but they did little to remove the uncertainty about when the Fed will begin to scale back its bond purchase program. The main takeaway from the Minutes is that Fed officials were split at the meeting about the timing for the taper to begin. Fed officials agree that the decision should be based on the performance of the economy, but they diverge on what constitutes sufficient strength. Bottom line, though, is that there was nothing in the Minutes to contradict investor expectations that the Fed will begin to taper in September or October, and mortgage rates rose after the release of the Minutes.

Friday's New Home Sales report caught investors by surprise. Data released earlier in the week showed that July's Existing Home Sales increased 7% from June and were 17% higher than a year ago. This led investors to believe that the solid improvement seen in the housing sector this year would continue. However, July's New Home Sales showed a decline of 13% from June. Existing Home Sales, which cover roughly 90% of home sales, are based on closings, while New Home Sales measure signed contracts. As such, New Home Sales reflect more current economic conditions than Existing Home Sales. Several Fed officials have expressed concerns that rising rates would slow the pace of economic growth. The decline in New Home Sales provides clear support that these concerns are justified. The question is whether the data will be enough to cause the Fed to hold off longer before tapering its bond purchases. The reaction from investors reflected the belief that tapering may be farther away, as mortgage rates improved after the release of the report.

- Existing home sales rose to the highest level since 2009
- Jobless claims remain close to 5-year lows
- The Treasury will auction 98 billion in securities next week
- Euro zone growth data was stronger than expected

Concerns About Syria (week ending 8/30/2013)

Increased concerns about the conflict in Syria caused investors to shift to safer assets this week. Mixed economic data was roughly neutral. As a result, mortgage rates ended the week a little lower.

Concerns about the reported use of chemical weapons by the Syrian government and the possibility of increased US involvement resulted in greater uncertainty in financial markets. Investors reacted by shifting from riskier assets such as stocks to safer assets such as bonds, which helped mortgage rates. It also pushed oil prices higher. When energy costs rise, economic growth slows, and this also benefits mortgage rates.

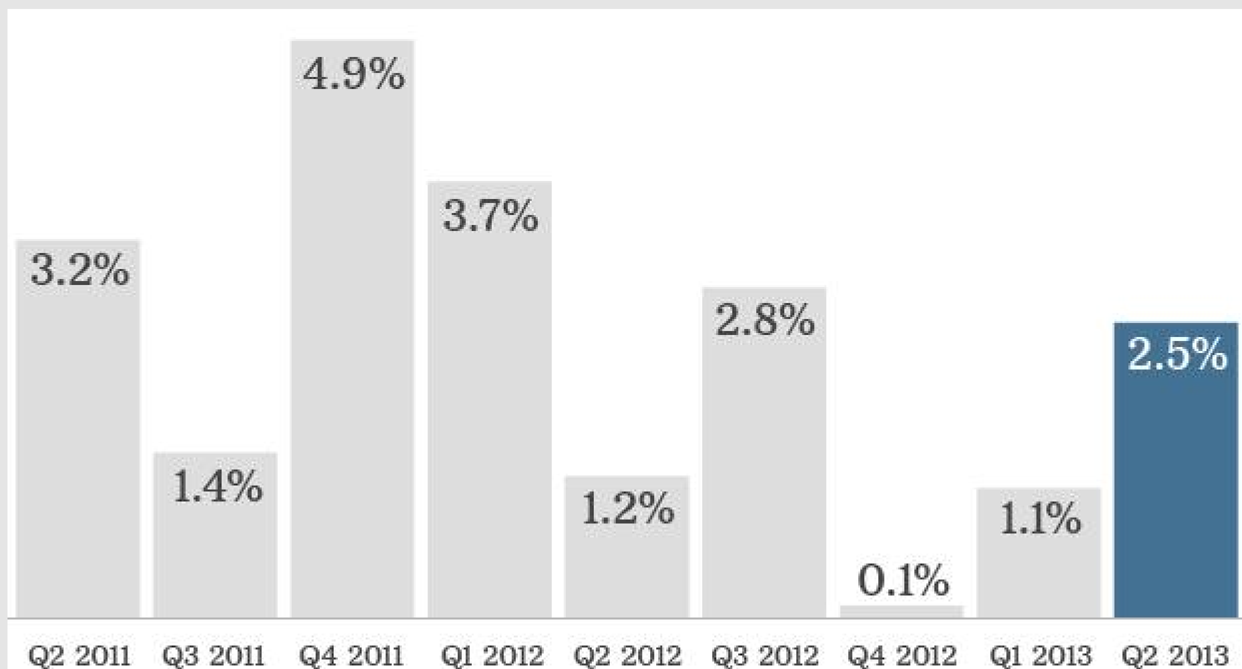
The other major focus for investors remains the timing for the Fed to begin to taper its bond purchase program. The economic data released this week was split between positive and negative surprises, however, this provided little reason for investors to change their expectations for Fed policy. The big upside news this week was that second quarter GDP was revised higher from 1.7% to 2.5%. On the downside, the Durable Orders data showed a large decline. Consumer Confidence and Consumer Sentiment increased, while Pending Home Sales fell. All in all, this week's mixed bag of data created volatility for mortgage rates, but it had little net impact.

- Core PCE inflation was just 1.2% higher than one year ago
- Pending Home Sales were 7% higher than one year ago
- Oil prices rose to the highest level since May 2011
- Unemployment in the euro zone remained near a record high

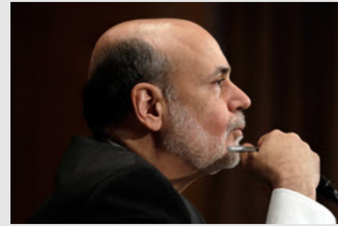
U.S. ECONOMIC GROWTH STRONGER THAN THOUGHT

The U.S. economy grew significantly faster than thought in the second quarter, which may help convince the Federal Reserve to start unwinding its stimulus program sooner rather than later. The nation's gross domestic product -- the broadest measure of economic activity -- rose at a 2.5% annual rate from April through June, according to a revised estimate from the Bureau of Economic Analysis Thursday. That's higher than the 1.7% rate originally reported, and better than the 2.1% rate that economists surveyed by Briefing.com were expecting.

Rising exports, consumer spending and real estate spending helped boost the second quarter numbers. A decline in government spending acted as a drag. The big upward revision was primarily the result of a better trade balance -- the nation exported more and imported less than previously thought.



All economic news is being closely watched for signs on when the Federal Reserve will begin curtailing its controversial bond-buying program. The stronger economic growth emboldens views that the Fed could start pulling back as soon as next month.



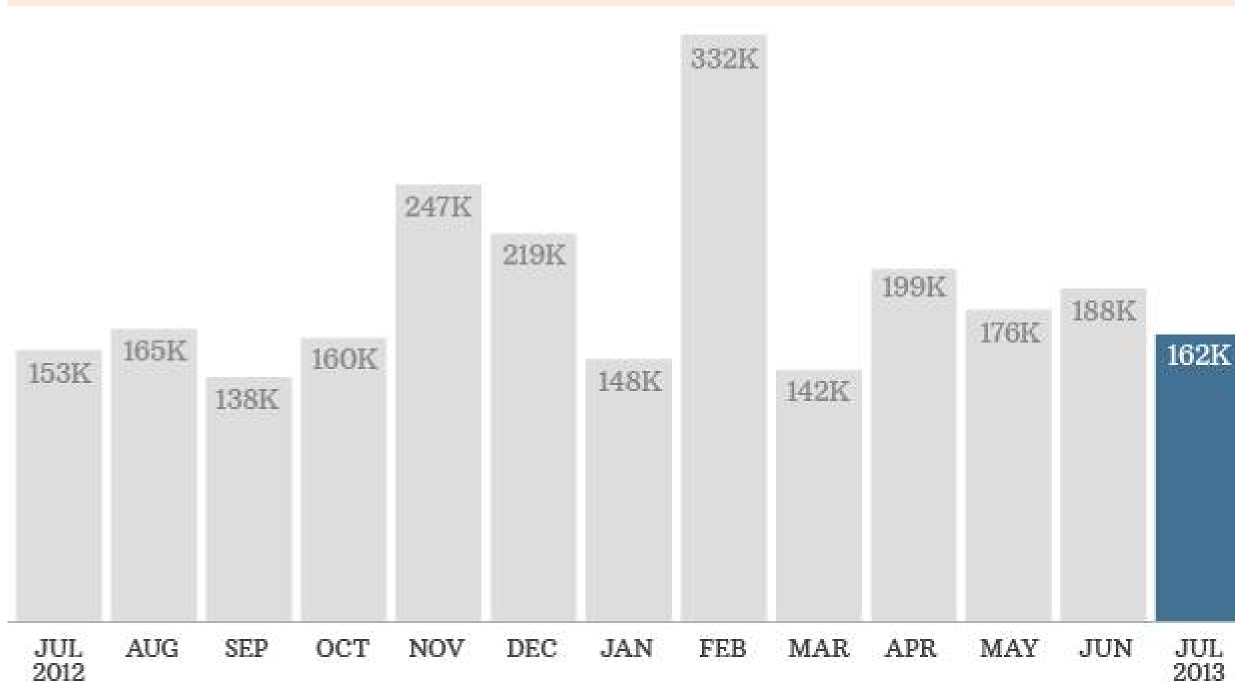
The Fed has been buying $85 billion a month in Treasuries and mortgage-backed securities in an effort to keep interest rates low and spur economic growth. Last May, Fed Chairman Ben Bernanke outlined a plan to begin "tapering" the purchases, and pegged the timing of that plan to improving economic data. Investors have taken that to mean as early as September, and have sent bond yields -- and mortgage rates -- soaring.

While 2.5% growth is decent, it's still below the 3.3% the economy has averaged since 1929. The August jobs report -- set for release next Friday -- will provide additional, and more current, data on the health of the U.S. economy. The government revises its GDP figures several times after the initial release. This is the second estimate for second quarter GDP

HIRING SLUMPS IN JULY

The job market hit a speed bump in July, as hiring slowed and both hours worked and wages fell slightly. The U.S. economy added 162,000 jobs, marking the slowest month for hiring since March, the Department of Labor stated (8/2). Economists had predicted employers added 180,000 jobs.

The moderate, but unspectacular job growth is consistent with an economy that's growing at a modest rate. The report was discouraging in many regards. While the unemployment rate fell slightly to 7.4%, the drop was partly because 37,000 people dropped out of the labor force. Only about 63% of Americans over age 16 participate in the job market -- meaning they have a job or are looking for one. That rate has been hovering recently around its lowest level since 1979.



The economy added 162,000 jobs in July, marking the weakest month for job growth since March.

The make-up of job growth was also disappointing. Hiring in July was concentrated in sectors typically characterized by low-wage jobs: Retailers, for example, added 47,000 jobs and restaurants and bars hired 38,000 workers.

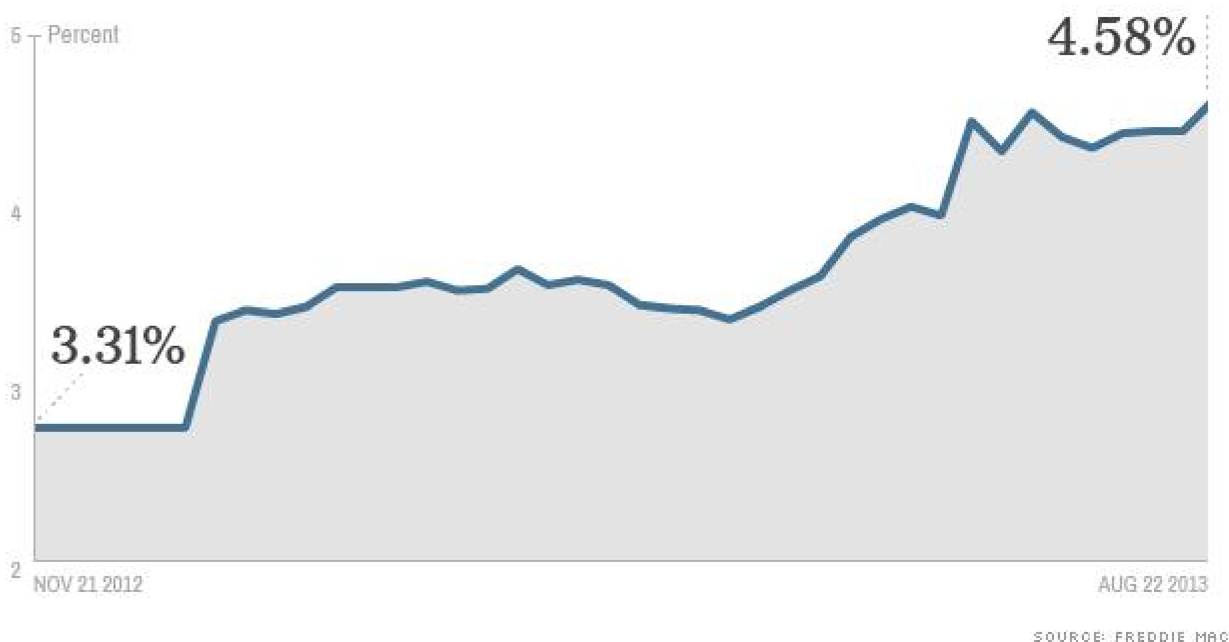
July's job growth was also below the average monthly gains over the past year, and revisions to June and May figures show that the economy added 26,000 fewer jobs than originally reported. Meanwhile, the average work week fell slightly, and average wages fell by about 2 cents to $23.98 an hour.

A survey of households showed workers got far more part-time jobs than full-time jobs, and the number of self-employed workers increased dramatically in July. But data from that survey are notoriously volatile, and economists cautioned against reading too much into just one month's numbers.

Earlier in the week, the Commerce Department reported that the economy grew at a slow rate in the second quarter, equivalent to about 1.7% a year. Many economists, including those at the Federal Reserve, expect economic growth to accelerate later this year.

The Federal Reserve has said it wants to see the outlook for the job market improve "substantially" before it will be ready to start gradually reducing its monthly bond-buying program -- known as QE3. Weakness in the July jobs report could mean the central bank will hold off on beginning to taper QE3 until later in the year.

MORTGAGE RATES HIT TWO-YEAR HIGH



SOURCE: FREDDIE MAC

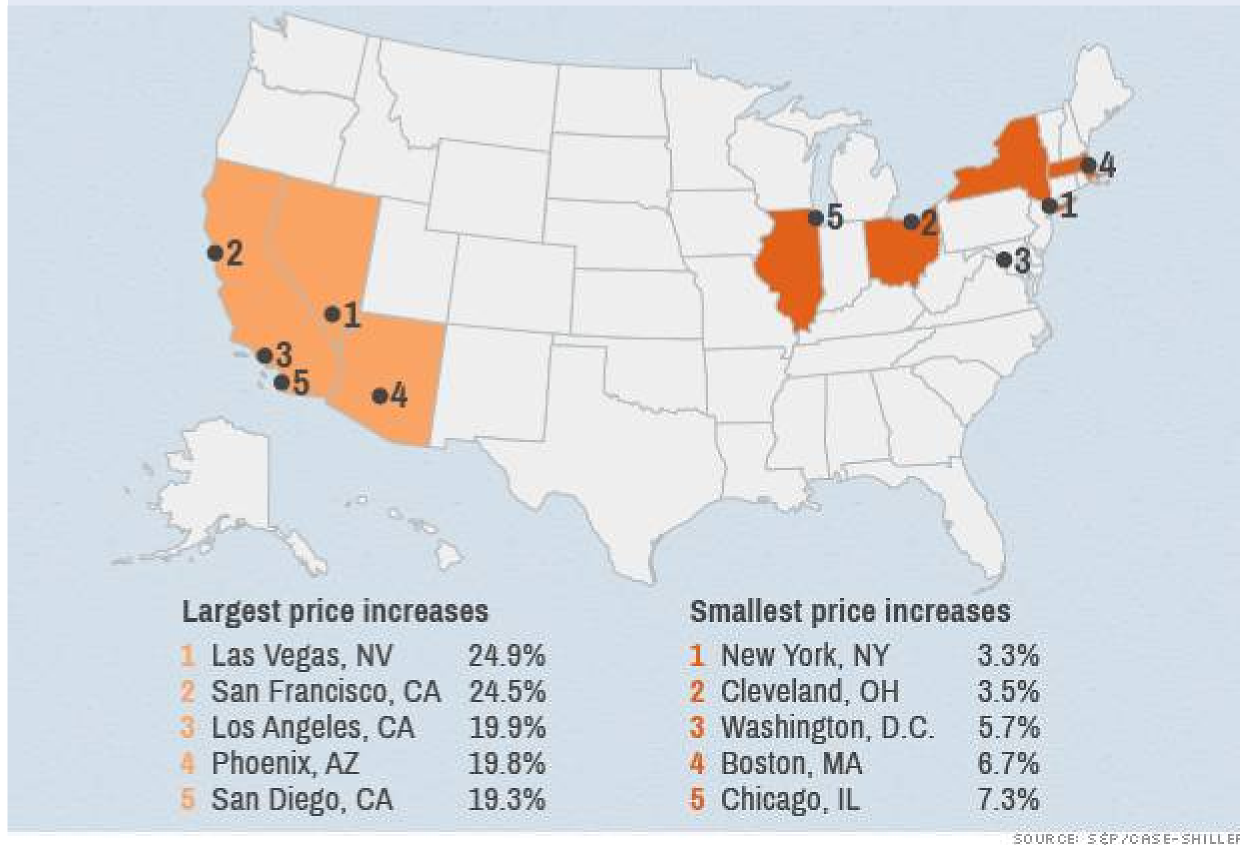
The average weekly rate for a 30-year fixed-rate mortgage jumped to a two-year high, Freddie Mac said on Thursday. The rate is now 4.58%, up from 4.4% the prior week. That is the highest level for the 30-year in more than two years, since it hit 4.6% on July 7, 2011. The increase is attributed to an improving housing market and investor concerns about when the Federal Reserve will taper its government bond-buying program, which could affect interest rates.

Rising rates could also affect the housing market going forward. A recent survey by real estate company Trulia found that an increase in mortgage rates was the prime concern among 41% of consumers, who worried about that more than price increases.

The 30-year rate hit an all-time low of 3.31% on Nov. 21, 2012. Since then, the 30-year has bounced around, sinking back down to 3.35% on May 2, 2013. The run-up to the current two-year high has all occurred in the last three months. Home prices have also been rising. According to the most recent figures available, the S&P/Case-Shiller home price index was up 12.2% in May compared to a year ago. That was the biggest such jump since March 2006, close to the peak of the real estate bubble.

HOME PRICES ARE STILL SURGING.... FOR NOW

Home prices are still surging, but the pace of the gains has steadied as interest rates continue to rise. Prices for homes in the nation's 20 largest cities in June rose 12.1% over the last year, according to a report from S&P/Case-Shiller home price index. While that gain is still robust, it didn't quite match the gain of 12.2% reported for May. Rising mortgage rates may be to blame.



Home prices have been on a tear for the last twelve months. June marks the first time in over a year that the overall increase has been smaller than the month before. While prices rose in all 20 cities measured by the index, only six cities in June saw price increases larger than the month before, down from 10 cities in May. Prices in Dallas and Denver are hitting all-time highs, while San Francisco housing prices have notched the biggest rebound, rising 47% from their low in March 2009. U.S. home prices are now at early 2004 levels -- still 23% below their peak in mid-2006. The recovering housing market has been a big part of the nation's economic recovery since the Great Recession. But some fear rising mortgage rates could put a damper on that growth. Mortgage rates have risen more than a full percentage point since May, when Federal Reserve chairman Ben Bernanke indicated the Fed may soon ease its bond buying program that's helped keep interest rates at record lows. While some cheer the Fed stepping back from its unusual bond purchases amid fears the buying will spark inflation, some worry that it may be too soon.

AFFORDING A HOME HARDER FOR AVERAGE BUYER

Stagnant incomes, higher home prices and climbing mortgage rates made affording a home a lot more difficult for the average homebuyer during the second quarter. Of all homes sold between April and June, 69.3% were affordable to a family earning the median income of $64,400, according to an index compiled by the National Association of Home Builders (NAHB) and Wells Fargo. That's down significantly from the first quarter, when 73.7% of homes sold were affordable and from late 2011, when affordability peaked at 78%.

Housing affordability has been hovering near historic highs for the past several years, largely due to exceptionally favorable mortgage rates and low prices during the recession. But all of that is starting to change now that both home prices and rates have been on the rise. The median price of all new and existing homes sold during the second quarter was $202,000 during the second quarter, up 9.2% from $185,000 a year earlier, NAHB/Wells Fargo reported. Meanwhile, interest rates for 30-year fixed-rate mortgages averaged 3.99% over the three month period, compared with 3.68% in the second quarter of 2012.

The Ogden, Utah, metro area was the nation's most affordable major housing market. Residents earning the area's median income of $70,800 were able to afford 92.8% of homes sold there during the quarter. It was the fourth consecutive quarter that Ogden led the nation. Indianapolis finished right behind Ogden with a 91.8% affordability rating. Others in the top five most affordable markets included Harrisburg, Pa., Youngstown, Ohio, and Buffalo, N.Y.

San Francisco was the least affordable metro area, where the average family could only afford 19.3% of homes, even though the median income there was a hefty $101,200. Los Angeles, Santa Ana, Calif., New York, and San Jose rounded out the top five unaffordable major cities.

This is the first time the housing affordability index has fallen below 70% since 2008, the report said. When compared to the bubble years, housing is still considered a bargain, however. At one point in 2006, only about 40% of homes sold were affordable.

43% PAY NO FEDERAL INCOME TAXES

A little more than 43% of U.S. households -- or 70 million homes - will end up owing no federal income taxes for 2013. That's down from recent years because of an improving economy and the expiration of various tax cuts that were passed after the 2008 financial crisis, according to the nonpartisan Tax Policy Center.

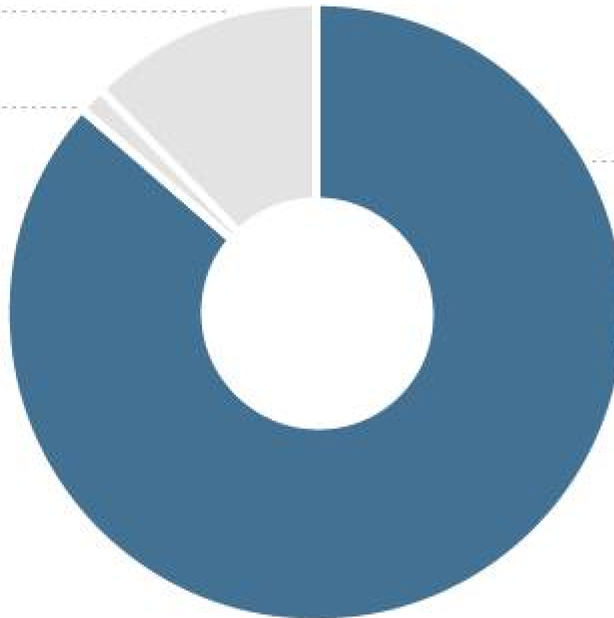
The households with zero income tax liability are not evenly distributed across income groups. The majority this year -- nearly 67% -- have incomes below $30,000. Many people who pay no income tax simply have too little income to owe tax. The rest benefit from the tax code's many preferences—exclusions, deductions, exemptions, and credits—that zero out the tax they would otherwise pay. But that doesn't mean there aren't any non-payers among high-income folks. The Tax Policy Center estimates that a little more than 1% of non-payers have six-figure incomes or more.

Specifically, an estimated 798,000 households in the non-payer group make between $100,000 and $200,000 a year; 48,000 have incomes between $200,000 and $500,000; 3,000 make between $500,000 and $1 million; and 1,000 households bring in more than $1 million.

Who owes no federal income tax

12.1%
$50K-$100K

1.3%
Over $100K



86.4%
Under $50K

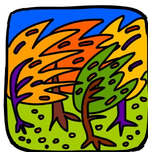
NOTE: 0.2% OF NON-PAYER HOUSEHOLDS NOT SHOWN IN INCOME BREAKDOWN; SOURCE: TAX POLICY CENTER, 2013 NUMBERS

A misconception about those who end up owing no federal income taxes—especially those with low incomes—is that they pay no taxes at all. In fact, most pay payroll taxes to support Medicare and Social Security as well as sales taxes and state and local taxes. However, there is a subset of households that still end up with no liability when income and payroll taxes are combined. The Tax Policy Center estimates 14.4% of all households—or 23 million—fall into this group--two-thirds of them are elderly.

The issue of Americans with zero tax liability is a politically charged one. Mitt Romney created an uproar on the presidential campaign trail last year after he incorrectly characterized this group as people who are "dependent on government" and "believe they are victims."

Lawmakers, too, often complain about the issue, even though Congress itself boosts the ranks of the non-payers by passing new tax breaks and failing to review whether the old ones still make sense.

But there may be less fodder for heated rhetoric in the years ahead. The Tax Policy Center estimates the percentage of households without federal income tax liability will continue to drop, falling as low as 34% of households by 2024.



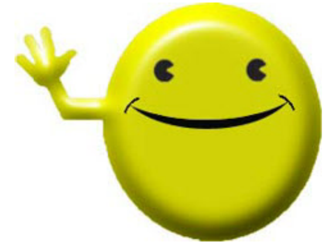
SPECIAL(S) OF THE MONTH

- **Conforming 5/1 ARM @ 2.75% & Conf. 5/1 Interest Only ARM @ 3.25%**
- **Conforming 30 yr. fixed @ 4.250%**
- **Conforming High Balance 15 & 30 yr. fixed @ 3.375% & 4.375% respectively**
- **Jumbo 5/1 ARM @ 3.000%**
- **FHA/VA High Balance 30 yr. fixed @ 3.875%/4.00%**
- **DU REFI PLUS 30 yr. fixed conforming @ 4.25%**

RATE SUMMARY

The past 30 days saw rate creep in the range of an 1/8th to an quarter point ↑

* Conforming programs—an eighth to a quarter worse ↑
* Jumbos—an eighth worse ↑
* Governments— an eighth to a quarter worse ↑



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.

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

MORTGAGE MIRTH

(Realtors and loan officers may find this month's cartoon more amusing than the lay public).