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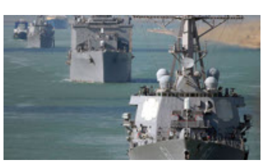
MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Jobs Fall Short (week ending 9/6/2013)



A lack of U.S. military action in Syria caused investors to reverse last week's safety trade, while mixed economic data was roughly neutral. As a result mortgage rates ended the week higher.

Since Fed officials have tied future policy changes to the performance of the economy, investors have reacted strongly to incoming economic data. Nearly all of the data released ahead of Friday's employment report was strong. The ISM manufacturing and ISM Services data rose to multi-year highs. Construction spending posed solid gains. Jobless claims remained close to five-year lows. The Fed's Beige Book reported that economic growth remained healthy. In short, all signs pointed to a clear path for the Fed to begin to slow the pace of its bond purchases.

The final, and biggest, piece of the puzzle broke the pattern, however. Friday's highly anticipated Employment report fell short of expectations in nearly every area. This was bad news for the economy, but it was favorable for mortgage rates. Against a consensus forecast of 175K, the economy added 169K jobs in August, but the figures from prior months were revised lower by 74K. The Unemployment Rate unexpectedly declined from 7.4% to 7.3%, the lowest level since December 2008. Digging deeper, though, the details revealed that the decline was more due to people dropping out of the labor force rather than job gains. The labor force participation rate (the percentage of people able to work, who are working, or are looking for work) dropped to the lowest level since 1978. The Employment report caused investors to question whether the Fed will begin to taper its bond purchase program at its next meeting.

- ISM services increased to the highest level since Dec. 2005
- ISM Manufacturing rose to the highest level since June 2011
- Auto sales rose to the best level since Nov. 2007

The European Central Bank made no change in rates.

Waiting for the Fed (week ending 9/13/2013)

Ahead of next week's highly important Fed meeting, there was little significant news this week. The US plans for Syria will take some time to decide, so it had little influence on mortgage rates. The majority of the economic data released this week fell short of expectations, which helped mortgage rates end the week a little lower.

The last major economic growth data before Wednesday's Fed meeting, the Retail Sales report, showed a modest pace of growth. As was the case with last week's Employment data, it is fortunate to have steady growth, but expectations were for greater strength.

Consumer Sentiment, which measures consumer expectations for future economic growth, dropped from recent multi-year highs. Investors have been closely watching the Jobless Claims reports in recent weeks for hints about the performance of the labor market, but this week's data was rendered inaccurate by a very unusual issue. Labor Department officials announced that two states were upgrading their computer systems and were unable to collect all the claims during the week.

The Retail Sales report was essentially the last data which could significantly influence the Fed's decision next week. Investors have now set their expectations. Despite the modest pace of economic growth, investors anticipate that the Fed will begin to taper its bond purchases, but now by a relatively small amount. The consensus is that the Fed will scale back from its current pace of $85 billion per month of combined Treasury and mortgage-backed securities (MBS) purchases to $70 or $75 billion per month. Some investors expect the Fed to reduce only Treasury purchases, while others think it will be split. Investors also will be interested in hearing how the Fed will determine future changes in the bond purchase program.

No Fed Taper (week ending 9/20/2013)

The most highly anticipated Fed meeting in years captured all the attention this week. The Fed statement caught nearly every investor by surprise, since the Fed did not begin to taper its bond purchase program. Mortgage rates swiftly dropped following the news and ended the week lower.

While the vast majority of investors expected a small cut in the quantity of monthly Fed bond purchases, the Fed made no change. According to the statement, Fed officials will wait for signs of stronger economic growth before scaling back its bond purchases. Fed Chief Bernanke stated that the economic data "does not yet provide sufficient confirmation" to justify reducing bond purchases. For mortgage rates, the continued demand from the Fed for mortgage-backed securities (MBS) is positive. Investors lost some faith in their ability to anticipate what the Fed will do, though, which likely will lead to high levels of volatility in the future.

The housing sector has been a major source of strength for the economy this year. By waiting to taper, Fed officials will have more time to see what impact the rise in mortgage rates in recent months will have on the housing market. The housing data released this week showed a modest pace of improvement. August Existing Home Sales increased 2% to the highest level since February 2007, exceeding even the peak seen in November 2009 when the homebuyer tax credit was set to expire. Existing Sales were 13% higher than one year ago. Total inventory of existing homes available for sale rose slightly to a 5-month supply.

Focus On Congress (week ending 9/27/2013)

The lack of progress in Congress on reaching an agreement on the budget and the debt ceiling was the focus for investors this week. The resulting uncertainty caused investors to shift to safer assets, which helped mortgage rates end the week lower.

After a week filled with market moving comments from Congressional leaders, the Republicans and the Democrats still appear to be far apart on bills for next year's budget and for raising the debt ceiling. If no deal is reached, some government functions may soon lose their funding. It is difficult to predict the degree to which this would impact the economy, but it likely would slow growth.

Investors reacted to the uncertainty by selling riskier assets such as stocks and purchasing relatively safer assets including mortgage-backed securities (MBS). Since mortgage rates are mostly determined by MBS prices, rates improved.

Overshadowed by the impasse in Washington, the housing data released this week continued to show solid results. August New Home Sales rose 8% from July and were 13% higher than one year ago. August Pending Home Sales declined a little from July, but they were still 6% higher than one year ago. The Case-Shiller 20-city home price index was 12.4% higher than one year ago, which was the largest increase since February 2006.

ARE TEA PARTY REPUBLICANS INSANE?

Yes, I know it's a deliberately provocative title, but if one accepts Einstein's premise that the definition of insanity is doing the same thing over and over again, yet expecting different results, one can't help question the mental state of an element in the GOP. What I'm referring to, albeit obliquely, is how many more times are Republicans in the House of Representatives going to vote to repeal Obamacare? At last count it was FORTY-THREE. Continuing to focus on this quest seems to be the height of idiocy, if "idiocy" can be characterized by height, since it seems to represent a low-water mark of sorts—even in politics. This Congress, the least productive one ever, has been called the Do-Less than Nothing Congress because they have passed even less legislation than the Do-Nothing Congress of 1947-1948.

Voting to repeal legislation doesn't change the law when the other party controls the Senate and the White House. Do they really think that the President would sign a bill repealing his administration's hallmark legislation? Moreover, given Congress' present approval rating of somewhere around 9% you have ask yourself , "What were they thinking? Or are they not thinking, but simply reacting "ideo-illogically"?

These elected officials are like a bunch of petulant children who put partisan interests ahead of the nation's economic health. When the outcome isn't to their liking they will do whatever they can to roll back what has become the law of the land by whatever extortionate means at their disposal: delay, defund or default. [There are elements that are still trying to roll back Roe v. Wade from 40 years ago. And House Republicans just voted to cut food stamps (for the poor) while simultaneously voting to increase farm subsidies (for agribusinesses)]. The motivation for all of this seems to stem from a strident minority of Republicans wishing to return to yesteryear and simpler times. The problem with that sort of thinking is that the good ol' days were not that great for a great many people e.g., women, blacks, gays, immigrants, the disenfranchised, etc.

Although you'd never know it from all the fulminations, with prominent Republicans routinely comparing Obamacare to slavery, the Affordable Care Act is based on three simple ideas. First, insurers must offer the same coverage to everyone regardless of medical history. Second, everyone must purchase coverage—the famous "mandate"—so that the young and healthy don't opt out until they get older and/or sicker. Third, premiums will be subsidized, so as to make insurance affordable to everyone.

Ironically, the Affordable Health Care Act supports one of the major beliefs of Republicanism—namely, that people be responsible for the cost of their own health care and not burden taxpayers with the cost of hospital emergency room visits. And, it is based on a Republican system that has been in effect in Massachusetts since 2006, where it was introduced by a Republican governor. What was his name? Mitt Somethingorother?

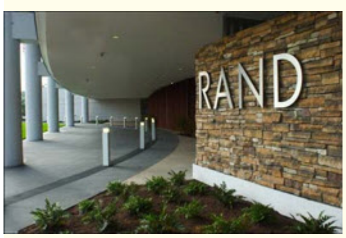
Over all, then, health reform will help millions of Americans who were previously either too sick or too poor to get the coverage they needed, and also offer a great deal of reassurance to millions more who currently have insurance but fear losing it; it will provide these benefits at the expense of a much smaller number of other Americans, mostly the very well off. It is, if you like, a plan to comfort the afflicted while (slightly) afflicting the comfortable.

In the meantime, Republicans are trying to block efforts to inform people about the law and are using scare tactics to keep them from enrolling. The Republican mantra is that the nation will face economic and medical catastrophe—a "train wreck," they say—unless health care reform is stopped in its tracks. In the Senate, they are threatening to oppose any spending bill that provides a single cent toward health care reform, a threat that could shut down the government this fall.

Tea Party Republicans are planning various extortionate strategies to forestall the law's implementation. Brian Walsh, a longtime Republican operative, recently noted in U.S. News and World Report that the right is now spending more money attacking Republicans than the Democrats are. Right-wing elements are threatening to find and fund primary opponents to defeat incumbent Republicans who do not vote to defund the Affordable Health Care Act

Another tactic: Last year's Supreme Court decision, upholding the law's constitutionality, also gave states the right to opt out of one piece of the plan, a federally financed expansion of Medicaid. The GOP seized on this with a vengeance. A number of Republican-dominated states seem set to reject Medicaid expansion. So, why would they do this? They won't save money. On the contrary, they will hurt their own budgets and damage their own economies. Nor will rejecting Medicaid serve any clear political purpose. No, the only way to understand the refusal to expand Medicaid is as an act of sheer spite. And the cost of that spite won't just come in the form of lost dollars; it will also come in the form of gratuitous hardship for some our most vulnerable citizens.

Medicaid provides health coverage to very-low income Americans at a cost private insurers can't match. So the Affordable Health Care Act sensibly relies on an expansion of Medicaid rather than the mandate-plus subsidy arrangement to guarantee care to the poor and near poor. But Medicaid is a joint federal-state program, and since the Supreme Court made it possible for state to opt out of the expansion, it appears that number of states will take advantage of that "opportunity". What will that mean?



A new study from the RAND Corporation, a non-partisan research institution, examines the consequences if 14 states whose governors have declared their opposition to Medicaid expansion do in fact, reject the expansion. The result, the study concluded, would be a huge financial hit: the rejectionist states would lose more than $8 billion a year in federal aid, and would also find themselves on the hook for roughly $1 billion more to cover the losses hospitals incur when treating the uninsured.

Meanwhile, rejecting Medicaid in these states will deny health coverage to roughly 3.6 million Americans with essentially all of the victims living near or below the poverty line. And since past experience shows that Medicaid expansion is associated with significant declines in mortality, this would mean a lot of avoidable deaths, about 19,000 a year, the study estimated.

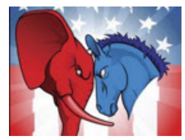
Just think about this for a minute. It's one thing when politicians refuse to spend money helping the poor and vulnerable; that's just business as usual. But here we have a case in which politicians are, in effect, spending large sums, in the form of rejected aid, not to help the poor but to hurt them.

The Republicans' determination to destroy health care reform has become an ideological obsession that, if successful, will deprive millions of Americans of health insurance they need and want. And the prospect that such a plan might succeed is anathema to a party whose whole philosophy is built around doing just the opposite, of taking from the "takers" and giving to the "job creators," known to the rest of us as the "rich."

The Republican position is that if President Obama's Health Care reform law is not repealed or defunded or delayed, they will not pass a spending bill needed to keep the government open past Sept. 30. And, if that doesn't cripple the health law (which it won't), they will resort to the far more serious threat of default, refusing to raise the nation's debt ceiling, no matter the catastrophe that would cause. Hence the brinkmanship.

So will Republicans actually take us to the brink? Successful health reform wouldn't just be a victory for a president that conservatives loathe; it would be an object demonstration of the falseness of right-wing ideology. So Republicans are being driven into a last, desperate effort to head this thing off at the pass. If they do, it will be crucial to understand why they would do such a thing, when their own leaders have admitted that confrontations over the budget inflict substantial harm on the economy. It won't be because they fear the budget deficit, which is coming down fast. Nor will it be because they sincerely believe that spending cuts produce prosperity. No, the Tea Party Republicans may be willing to risk economic and financial crisis solely in order to deny essential health care and financial security to millions of their fellow Americans. They actually think they can get the Senate, and ultimately the President, to approve the defunding of the health law—Mr. Obama's, most important achievement—by threatening to harm the nation and the economy. Their obsession seems to be like cutting off one's nose to spite one's face—insane!

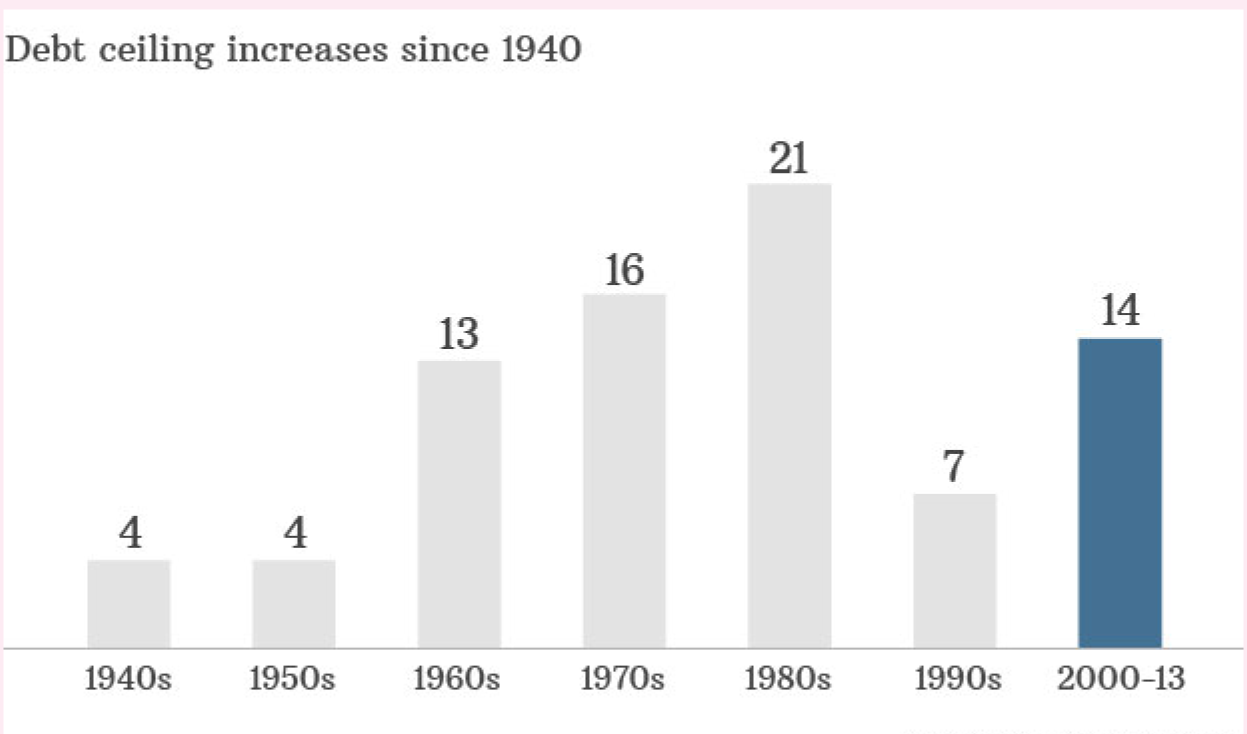
THE NEVER-ENDING CHARADE OF DEBT CEILING FIGHTS



Lawmakers are tied up in knots over increasing the debt ceiling this fall. But they eventually will. The only question is how messy the process will be. Why assume they'll raise it? Because they have no real choice if they want to avoid a U.S. default. A default would hurt the economy and markets, and most lawmakers know this. That's why they regularly raise the debt ceiling before it comes to that.

In fact, since 1940, Congress has effectively approved 79 increases to the debt ceiling. That's an average of more than one a year. How do they raise it? Sometimes lawmakers have raised it by small amounts, other times by large amounts. And sometimes they've raised it "temporarily" with provisions for a "snap-back" to a lower level.

Since it's a politically tough vote, they occasionally devise clever ways to tacitly approve increases without ever having to publicly record a "yes" vote. For example, as part of the deal to resolve the 2011 debt ceiling war, Congress approved a plan that let President Obama raise the debt limit three times unless both the House and Senate passed a "joint resolution of disapproval." Such a measure never materialized. And even if it had, the president could have vetoed it.



Then this past February, lawmakers decided to temporarily "suspend" the debt ceiling. Under this scheme, Treasury was able to continue borrowing to pay the country's bills until May 19. At that point, the debt limit automatically reset to the old cap plus whatever Treasury borrowed during the suspension period.

What does raising the debt ceiling accomplish? Despite some politicians' incorrect assertions, raising the debt ceiling does not give the government a "license to spend more." It simply lets Treasury borrow the money it needs to pay all U.S. bills in full and on time. Those bills are for services already performed and entitlement benefits already approved by Congress. In other words, it's a license to pay the bills the country incurs as a result of past decisions made by lawmakers from both parties over the years. Refusing to raise the debt ceiling is "not like cutting up your credit cards. It's like cutting up your credit card bills," said historian Joseph Thorndike, who has written about past debt crises.

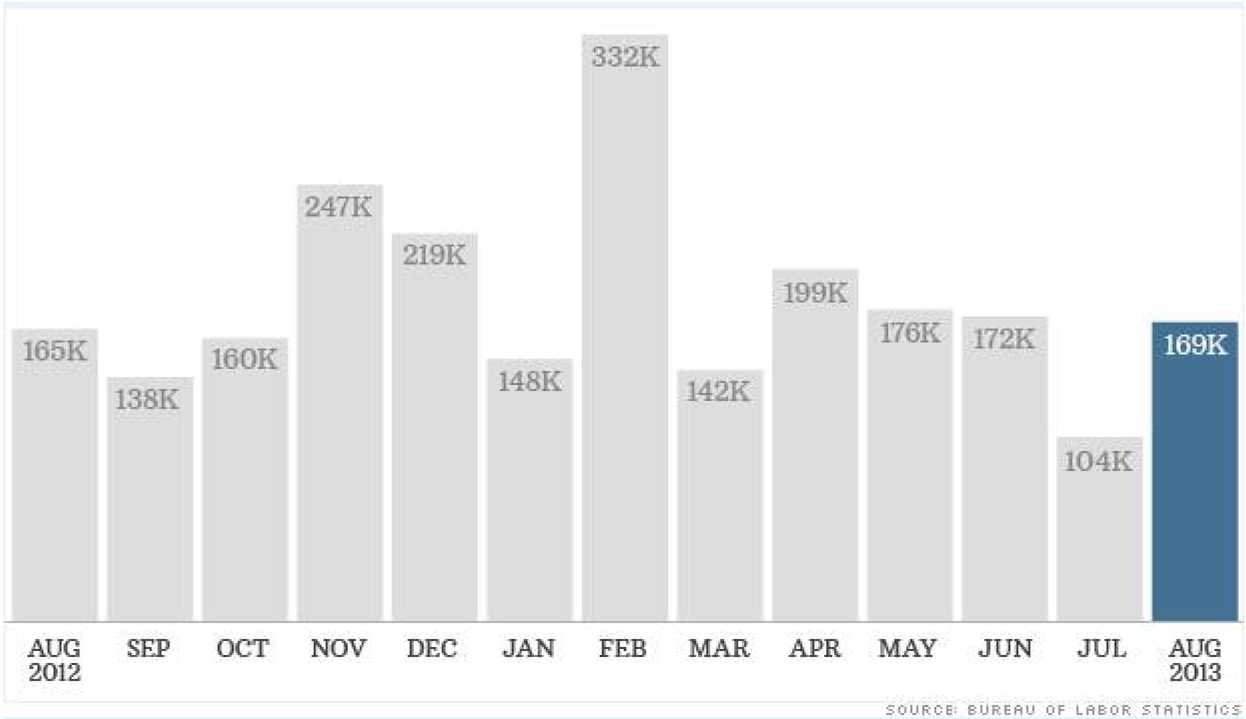
How high is it today? The debt ceiling was reset at $16.699 trillion on May 19, up from the $16.394 trillion where it was before the suspension. Since then, Treasury has been forced to use "extraordinary measures" to keep the country from breaching the limit. Treasury Secretary Jack Lew said those measures will be exhausted by mid-October, after which he will only have $50 billion on hand, plus incoming revenue to pay what's owed. Sounds like a lot, but it won't last long.

How long will it last? An analysis by the Bipartisan Policy Center estimates that the Treasury will no longer be able to pay all bills in full and on time at some point between Oct. 18 and Nov. 5. So, you're saying they only have a few weeks to work this out? Yup.

House Republicans say they will demand spending cuts and fiscal reforms in exchange for their support of a debt ceiling increase. The White House, meanwhile, has said it won't negotiate quid pro quo. The question is when will Republicans or the White House—or both—bend in the standoff? If recent history is any guide it likely will be just in the nick of time.

And there's no telling how creative the deal they cut will be. But any bad blood created along the way almost certainly would poison other budget negotiations.

AUGUST JOBS REPORT: HIRING CONTINUES AS UNEMPLOYMENT FALLS



Hiring continued at a slow pace in August with the U.S. economy adding 169,000 jobs and the unemployment rate fell as more Americans dropped out of the labor force. Although that was an improvement from 104,000 jobs added in July, it was also slower than the average pace of job growth over the last 12 months, and missed economist expectations. Job growth for both June and July was also revised lower by a total of 74,000 jobs.

Meanwhile, the unemployment rate fell to 7.3%, but the decline came for the wrong reasons, as 312,000 people dropped out of the labor force. Only 63.2% of Americans now participate in the labor force -- meaning they have a job or are looking for one. That's the lowest rate since August 1978.

The report was being closely watched for signs that the Federal Reserve will begin pulling back on its controversial bond-buying program later this month. The Fed has said that the timing of the "tapering" would depend heavily on improvement in the labor market. But economists were mixed in their reactions. And stocks rose following the report, as investors took weak job growth as a sign that the Fed may hold off on tapering until later this year.

Many of the jobs came in traditionally low-paying sectors, with retailers adding 44,000 jobs and restaurants and bars adding about 21,000 jobs. Despite the housing recovery, the construction sector added no jobs overall. Other bright spots included 33,000 jobs added in health care, 23,000 jobs added in professional services and 14,000 jobs added in manufacturing. Overall, the trend remains the same: Modest hiring has continued at a rate of about 184,000 jobs a month for the last year, but that's not nearly fast enough for the 11.3 million people who remain unemployed. The economy needs at least 200,000 new jobs a month just to keep pace with population growth.

FORECLOSURE CRISIS IS DRAWING TO A CLOSE

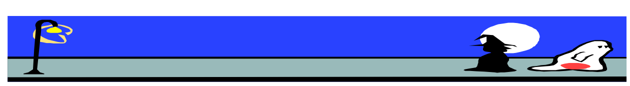
The number of new foreclosure filings fell to an eight-year low in August. The long national foreclosure nightmare may be over. The number of new foreclosure filings in August hit its lowest level in nearly eight years, according to RealtyTrac, an online marketer of foreclosed properties. Soaring home prices and a big decline in underwater borrowers—those who owe more on their mortgage loans than their homes are worth—have helped drive the trend.

August's initial foreclosure filings fell 44% to 55,575, just below the 56,063 that were recorded in October 2005. The foreclosure crunch began in summer 2006, at about the same time that housing prices hit their peak. "This is a strong indicator that the crisis is over," said Daren Blomquist, vice president at RealtyTrac. "The foreclosure floodwaters have receded in most parts of the country, although lenders and communities continue to clean up the damage left behind," he added. The mopping-up process continues, however. In August, for example, the number of homes repossessed by lenders rose 6%, compared with July, to 39,277. But that still represents a drop of 25% year-over-year, and is more than 60% below the peak of repossessions in September, 2010.

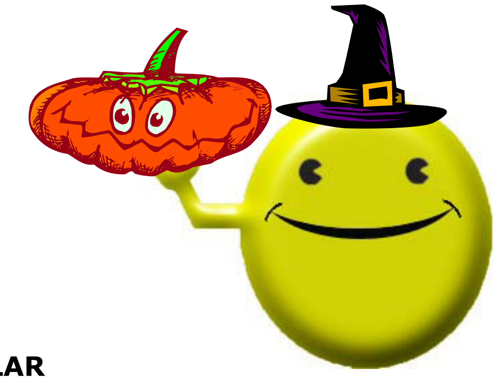
The state with the highest rate of foreclosure filings was Nevada, with one for every 359 homes. According to Bloomquist, many of those filings had been delayed by recent state legislation there that required lenders to redo their paperwork. In Florida, one of every 383 homes had some kind of filing, the second highest rate among states. Ohio, Delaware and Maryland filled out the top five. Florida cities accounted for six of the 10 hardest hit metro areas. Port St. Lucie topped the list, with a filing for one out of every 201 homes. Jacksonville, Miami and Ocala were also hard hit. Las Vegas reported the third highest rate and three Ohio cities—Toledo, Cleveland and Akron—also made the top 10 list.

SPECIAL(S) OF THE MONTH

- Conforming 5/1 ARM @ 2.75% &
  Conf. 5/1 Interest Only ARM @ 3.25%
- Conforming 15 yr. fixed @ 3.000%
- Conforming 30 yr. fixed @ 4.000%
- Jumbo 5/1 ARM @ 2.750%
- Jumbo 30 yr. fixed @ 4.500%
- FHA/ CONFORMING 15 yr. fixed @ 3.000%
- DU REFI PLUS 30 yr. fixed conforming @4.000%



RATE SUMMARY



The looming congressional showdown over the budget and debt ceiling negotiations caused a quarter-point drop in mortgage rates this past month.

***Conforming programs—a quarter better ↓**
***Jumbos— an eighth to a quarter better ↓**
***Governments— an eighth to a quarter better ↓**

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 a "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