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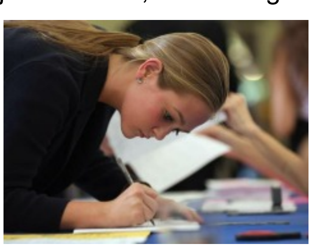
MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

Job Gains Surge (Week ending July 3, 2014)

The big story this week was that job gains in June were significantly higher than expected. Since faster economic growth adds to future inflationary pressures, though, this was negative for mortgage rates, which ended the week higher.

Against a consensus forecast of 210K, the economy added 288K jobs in June, and the figures for April and May were revised higher as well. This was the fifth straight month of job gains above 200K which has not occurred since the late 1990s. The Unemployment Rate declined from 6.3% to 6.1%, the lowest level since September 2008. Average Hourly Earnings, a proxy for wage growth, were 2.0% higher than one year ago. This was a solid report nearly across the board



Given the surprising strength of recent job gains, the increase in mortgage rates could have been larger. One significant factor in the jobs data has remained favorable for mortgage rates, however. The 2.0% annual rate of wage gains is relatively low by historical standards and creates little concern for future inflation. Fed Chair Yellen has described wage inflation as one of the important indicators of when the Fed needs to raise the fed funds rate. If the pace of wage gains were to increase, then Fed officials would face more pressure to tighten monetary policy.

Global Concerns Affect Rates (Week ending July 11, 2014)

Unexpected events outside the US had the greatest influence on mortgage rates this week. Violence in the Middle East and economic concerns about Europe caused investors to shift to safer assets, helping mortgage rates. Bond friendly comments from the Fed added to the improvement, and mortgage rates ended the week lower.

During periods of uncertainty, investors commonly reduce the risk in their portfolios. Generally, they shift from riskier assets such as stocks to relatively safer assets such as gold or US guaranteed bonds, including mortgage-backed securities (MBS). Added demand for MBS helped mortgage rates to improve this week as investors were confronted with concerns on two fronts. Violence in Israel caused tensions in the Middle East to increase.

In addition, there were signs that the largest bank in Portugal may default on its debt. This caused investors to question the level of reserves held by the banks in Europe and the outlook for economic growth in the region.

The news from the Fed this week was also favorable for mortgage rates. There were no big surprises in the FOMC Minutes from the June 18 Fed Meeting and no new guidance on the timing of the first fed funds rate hike. The positive news for mortgage rates came as the Fed provided a little more detail on its plans for its mortgage-backed securities (MBS) portfolio. The Fed's portfolio has been growing at a scheduled pace as the Fed has been reinvesting principal payments received and adding new MBS. The Minutes indicated that the purchases of new MBS will end in October as expected. After that time, the Fed plans to continue to reinvest principal payments received, which will hold the size of its portfolio steady, at least until the first fed funds rate hike. Principal payments have been averaging $16 billion per month, so investors were pleased that the reinvestment will continue for quite a while, as the added demand for MBS helps keep mortgage rates low.

Conflict in Ukraine and Middle East (Week ending July 18, 2014)

Geopolitical events were the primary influence on mortgage rates again this week, while the economic data had little impact. After a quiet weekend, investors were willing to take on a little more risk early in the week. Shocking news on two fronts caused an abrupt reversal on Thursday, however, and mortgage rates ended the week just slightly higher.

When a conflict breaks out which could affect global markets, investors generally respond with a "flight to safety". Uncertainty created by the threat of escalation causes investors to reduce the level of risk in their portfolios. This typically involves shifting from stocks to relatively safer assets such as gold and bonds, including mortgage-backed securities (MBS).

Heading into last weekend, investors were concerned about the possibility of an escalation in the conflict between Israel and Gaza, so they shifted to safer assets. When there was little change in the situation early this week, investors unwound these positions, pushing rates higher. Then on Thursday, Israel announced a ground offensive in Gaza and a Malaysian passenger plane was shot down in Ukraine. These events caused investors to quickly return to safer assets, offsetting much of the earlier rise in rates.

In the US, there was mixed news from the housing sector. The National Association of Home Builders (NAHB) Housing Market Index revealed that builder confidence jumped sharply in July to the highest level since January. Less positive, the Housing Starts data released this week, which covers the month of June, showed a decline of 9% from May. This data can be quite volatile from month to month, though.

Existing Home Sales Improve (Week ending July 25, 2014)

The conflicts in Ukraine and the Middle East had little impact on markets this week, while the economic data was slightly stronger than expected overall. As a result, mortgage rates ended the week a little higher.

The housing data released this week contained mixed news. Fortunately, the good news came from Existing Home Sales, which cover roughly 90% of the housing market. June Existing Home Sales rose 3% from May to the highest level since October 2013, marking the third straight month of increases. Also, the inventory of existing homes for sale rose to the highest level since August 2012. Less encouraging, June New Home Sales, accounting for the remaining 10% of the market, declined 8% from May, and the May results were revised sharply lower. These figures are frequently volatile from month to month. New homes inventories increased as well to the highest level since October 2011. To summarize, the bulk of the housing market showed continued improvement, and the tight supply of homes for sale in some markets may be showing signs of easing.

While Fed officials have recently downplayed the risk of higher inflation, many investors are not quite so certain. The inflation data released on Tuesday eased some concerns, but just slightly. The June Consumer Price Index (CPI), one of the most widely watched inflation indicators, increased at a 2.1% annual rate. Core CPI which excludes the volatile food and energy components was 1.9% higher than one year ago. With CPI holding steady close to the Fed's stated target level of 2.0%, investors will be keeping an eye out for signs of rising inflation which could pressure the Fed to tighten monetary policy.

THE STATE OF THE UNION

This is the sixth of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our "State of the Union". As Theodore Parker, an early American Transcendentalist observed:

The arc of the moral universe is long, but it bends toward justice.

While economics relies heavily on numbers and statistics it is invaluable indicator of the costs and benefits associated with "being on the right side of history".

THE AFFORDABLE CARE ACT (OBAMACARE)

The crucial thing to understand about the Affordable Care Act (ACA) is that it's a complicated way to do something inherently simple. It was an awkward compromise dictated in part by the need to appease special interests. The biggest risk to reform has always been that the plan would founder due to its complexity. But 100 years later, after Theodore Roosevelt first proposed it while running as a Progressive Party candidate it has to have come to fruition.

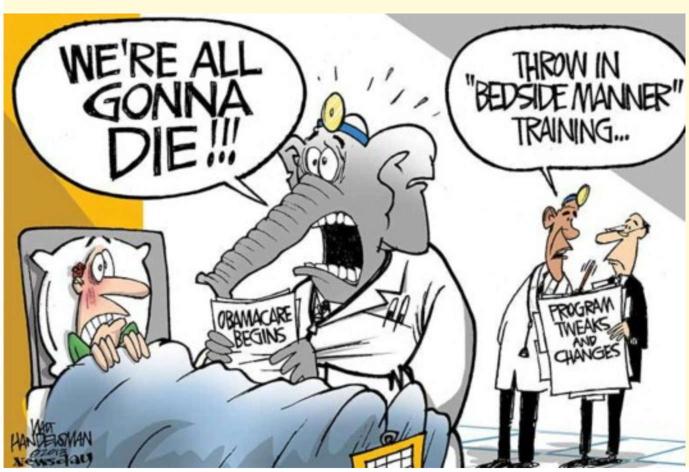
Giving everyone health insurance didn't have to be difficult; you could just do it with a government-run program. Not only do many other advanced countries have "single-payer," government-provided health insurance, but we ourselves have such a program — Medicare— for older Americans. If it had been politically possible, extending Medicare to everyone would have been technically easy and the most judicious and cost effective way to accomplish this.

But it wasn't politically possible, for a couple of reasons. One was the power of the insurance industry, which couldn't be cut out of the loop if you wanted health reform this decade. Another was the fact that the 170 million Americans receiving health insurance through employers are generally satisfied with their coverage, and any plan replacing that coverage with something new and unknown was a nonstarter.

So health reform had to be run largely through private insurers, and be an add-on to the existing system rather than a complete replacement. And, as a result, it had to be somewhat complex. The complexity shouldn't be understated. And given the current socio-political environment it had to be as complicated as it is. There was a reason that Republicans were never able to propose an alternative to the Affordable Care Act: All of the main elements of Obamacare, including the subsidies and the much-attacked individual mandate, were essential if you were to cover the uninsured.

It was a system in which many things could go wrong. The nightmare scenario has always been that conservatives would seize on technical problems to discredit health reform as a whole. But that has been averted. It's fairly obvious that the overall structure of Obamacare made sense given the political constraints and we now know that the technical details are manageable.

Let's start with the good news about reform, which keeps coming in. First, there was the amazing come-from-behind surge in enrollments. Then there were a series of surveys—from Gallup, the Urban Institute, and RAND — all suggesting large gains in coverage. Taken individually, any one of these indicators might be dismissed as an outlier, but taken together they paint an unmistakable picture of major progress.



What's interesting about this success story is that it has been accompanied at every step by cries of impending disaster. At this point, the enemies of health reform are 0 for 10. That is, they made at least six distinct predictions about how Obamacare would fail—every one of which turned out to be wrong.

When it comes to health reform, Republicans have been naysayers from the get-go. They knew, just knew, that the Affordable Care Act was doomed to utter failure, so failure is what they forecast, never mind the facts on the ground. But that hasn't deterred ACA's opponents from claiming otherwise.

Everyone makes incorrect predictions. But to be that consistently, grossly wrong takes an obdurate lack of reason. So what's this all about? Many readers won't be surprised by the answer: It's about politics and ideology, not analysis. But while this observation isn't particularly startling, it's worth pointing out just how completely ideology has trumped evidence in the health policy debate.

Let's review four of the most egregious first:

The Claim: They said Obamacare would use Death Panels.

FACT: It doesn't.

The Claim: They said it was a government takeover.

FACT: The insurance industry is making record profits.

The Claim: They said it covered "illegals".

FACT: It doesn't.

The Claim: They said it was a job-killer

FACT: It hasn't been. Among the less outrageous were the following:

The Claim: Opponents claimed that the Affordable Care Act (ACA) was unconstitutional because of the individual mandate—the requirement that all individuals not covered by an employer sponsored health plan, Medicaid, Medicare or other public insurance programs buy insurance or pay a penalty.

FACT: On June 28, 2012, the United States Supreme Court upheld the constitutionality of the ACA's individual mandate as an exercise of Congress' taxing power.

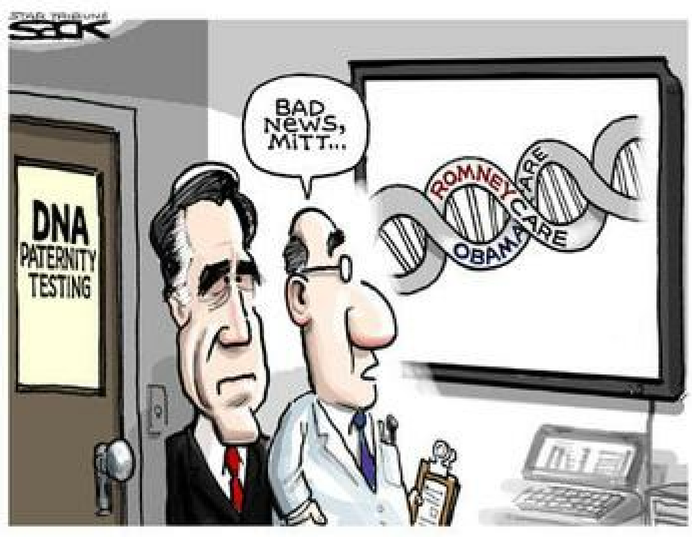
The Claim: Opponents claimed nobody will sign up for it.

FACT: The really big policy news of 2014, at least so far, is the spectacular recovery of the Affordable Care Act from its stumbling start, thanks to an extraordinary late surge that took enrollment beyond early projections. The age mix of enrollees has improved; insurance companies are broadly satisfied with the risk pool. Multiple independent surveys confirm that the percentage of Americans without health insurance has already declined substantially, and there's every reason to believe that over the next two years the act will meet its overall goals, except in states that refuse to expand Medicaid. Some 8.1 million people selected insurance plans on the Obamacare exchanges during the first open enrollment period, which ended March 31.

The Claim: Remember "rate shock"? Last fall, when we got our first information about insurance premiums, conservative health care analysts raced to claim that consumers were facing a huge increase in their expenses.

FACT: It was obvious, even at the time, that these claims were misleading; we now know that the great majority of Americans buying insurance through the new exchanges are getting coverage quite cheaply.

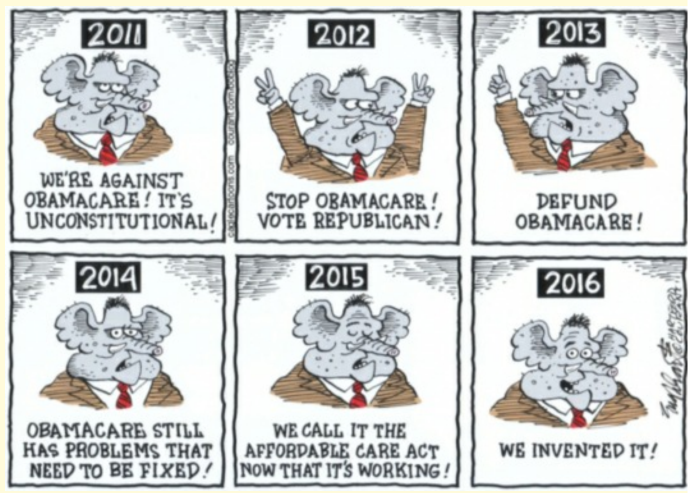
The Claim: This is a problem for Republicans, who have bet the ranch on the proposition that health reform is an unfixable failure. "Nobody can make Obamacare work," declared Eric Cantor, the House majority leader.



FACT: What was especially odd about the incessant predictions of health-reform disaster was that we already knew, or should have known, that a program along the lines of the Affordable Care Act was likely to work. Obamacare was closely modeled on Romneycare, which has been working in Massachusetts since 2006, and it bears a strong family resemblance to successful systems abroad, for example in Switzerland. Why should the system have been unworkable for America?

Cantor's statement was made on May 5th, 2014, despite the fact that it was already obvious that it was working pretty well. Rather than graciously admitting that perhaps it wasn't such a bad idea, (after all it was originally instituted by Republican Mitt Romney in Massachusetts way back in 2006) that the naysayers were wrong, and offer constructive suggestions about how to make the law work even better, instead they decided on a campaign of disinformation which they've been doing ever since the news on Obamacare started turning positive. Premiums were soaring, they declared, when they have actually come in below projections. Millions of people were losing coverage, they insisted, when the great bulk of those whose policies were canceled simply replaced them with new policies. The Obama administration was cooking the books, they cried. They keep peddling horror stories about people suffering terribly from Obamacare. As we've seen, not one of which has actually withstood scrutiny.

While it's been a big political victory for Democrats and even though they can point to a system that is already providing vital aid to millions of Americans, they haven't flaunted their accomplishment. Republicans—who were planning to run against a debacle—have nothing to offer in response. Nothing. So far, not one of the supposed Obamacare horror stories featured in attack ads has stood up to scrutiny.



The Claim: Young people wouldn't sign up. Consequently, Obamacare would experience a "death spiral" of surging costs and shrinking enrollment?

FACT: It didn't happen. A new survey by Gallup found that both a lot of people gained insurance through the program and that the age mix of the new enrollees was broad.

And most recent "tempest in a teapot" has been….

The Claim: House Republicans alleged that only 67% of those signing up for Obamacare had paid their first month's premiums (even thought the insurers appearing before the subcommittee said the figures in the panel report were incomplete).

FACT: On May 1st, House Republicans released a deliberately misleading report on the status of health reform, crudely rigging the numbers to sustain the illusion of failure in the face of unexpected success. It asked insurers how many enrollees had paid their first premium; it ignored the fact THAT THE FIRST PREMIUM WASN'T EVEN DUE FOR THE MILLIONS OF PEOPLE WHO HAD SIGNED UP FOR INSURANCE AFTER MARCH 15. In reality, most people signing up for Obamacare are paying their premiums, insurers told a Congressional subcommittee a week later. Though it may take weeks or months for the final payment figures to be calculated, rates are running in the 80% to 90% range, several major insurers said.

About 83% of the more than 600,000 members who signed up for Aetna plans have paid, a company executive told the representatives.

At WellPoint, up to 90% have sent in payments, depending on the state, said an executive from the insurer, which is the largest participant in the exchange arena.

Health Care Service Corp. has seen payment rates in the 80% range for the 600,000 applications received on the exchanges.

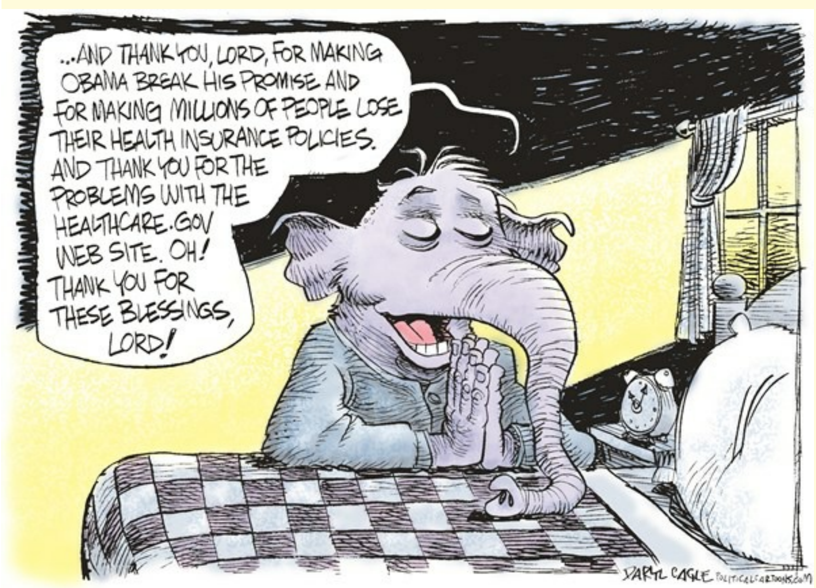
This allegation is part of a ongoing pattern. It also, however, involves a change in tactics. Previous attacks on Obamacare were pretty much fact-free; this time the claim was backed by an actual survey purporting to show that a third of enrollees hadn't paid their first premium. Mainstream politicians didn't always try to advance their agenda through lies, damned lies and—in this case—bogus statistics. But, the fact that this has become standard operating procedure for a major party bodes ill for America's future. And the fact that the survey was so transparently rigged is a smoking gun, proving that the attacks on Obamacare aren't just bogus; they're deliberately bogus. The staffers who set up that survey knew enough about the numbers to skew them, which meant that they have to have known that Obamacare is actually doing O.K.

So why are Republicans doing this? Sad to say, there's method in their fraudulence.

First of all, it fires up the base. After this latest exercise in deception, we can be fairly sure that Republican leaders know perfectly well that Obamacare has failed to fail. Beyond that, the constant harping on alleged failure works as innuendo even if each individual claim collapses in the face of evidence. A recent poll by the Kaiser Family Foundation found that a majority of Americans know that more than eight million people enrolled in health exchanges; but it also found a majority of respondents believing that this was below expectations, and that the law was working badly.

While it has been funny watching the right-wing cling to its delusions about health reform, it's also scary. After all, these people retain considerable ability to engage in policy mischief, and one of these days they may regain the White House. And you really, really don't want people who reject facts they don't like in that position. I mean, they might do unthinkable things, like starting a war for no good reason. Oh, wait.

So Republicans are spreading disinformation about health reform because it works, and because they can—there is no sign that they pay any political price when their accusations are proved false. And Democrats never seem to call them on their perfidy.



But wait: What about all the people who lost their policies thanks to Obamacare? The answer is that this looks more than ever like a relatively small issue hyped by right-wing propaganda. RAND finds that fewer than a million people who previously had individual insurance became uninsured — and many of those transitions, one guesses, had nothing to do with Obamacare. It's worth noting that, so far, not one of the supposed horror stories touted in Koch-backed anti-reform advertisements has stood up to scrutiny, suggesting that real horror stories are rare.

Republicans clearly have no idea how to respond to these developments. They can't offer any real alternative to Obamacare, because you can't get the benefits of the Affordable Care Act, like coverage for people with pre-existing medical conditions, without also including the mandate that everyone buy insurance or pay the fine. Their political strategy has been to talk vaguely about replacing reform while waiting for its inevitable collapse. And if it doesn't collapse? They have no idea what to do.

At the state level, however, Republican governors and legislators are still in a position to block the act's expansion of Medicaid, denying health care to millions of vulnerable Americans. And they have seized that opportunity with gusto: Most Republican-controlled states, totaling half the nation, have rejected Medicaid expansion. And it shows. The number of uninsured Americans is dropping much faster in states accepting Medicaid expansion than in states rejecting it.

What's amazing about this wave of rejection is that it appears to be motivated by pure spite. The federal government is prepared to pay for Medicaid expansion, so it would cost the states nothing, and would, in fact, provide an inflow of dollars. The health economist Jonathan Gruber, one of the principal architects of health reform — and normally a very mild-mannered guy — recently summed it up: The Medicaid-rejection states "are willing to sacrifice billions of dollars of injections into their economy in order to punish poor people. It really is just almost awesome in its evilness."

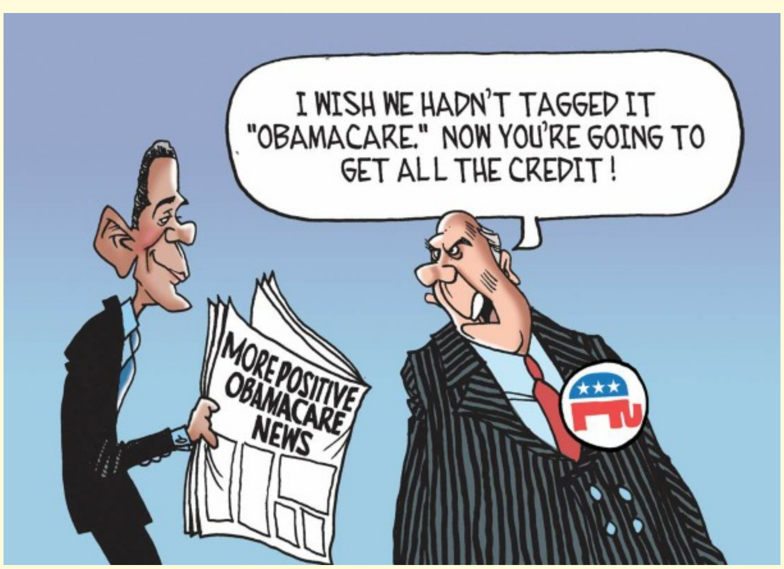
And while supposed Obamacare horror stories keep on turning out to be false, it's already quite easy to find examples of people who died because their states refused to expand Medicaid. According to one recent study, the death toll from Medicaid rejection is likely to run between 7,000 and 17,000 Americans each year.

But nobody expects to see a lot of prominent Republicans declaring that rejecting Medicaid expansion is wrong, that caring for Americans in need is more important than scoring political points against the Obama administration. There's an extraordinary lack of compassion for one's fellow man in today's America, which health reform has brought out into the open.

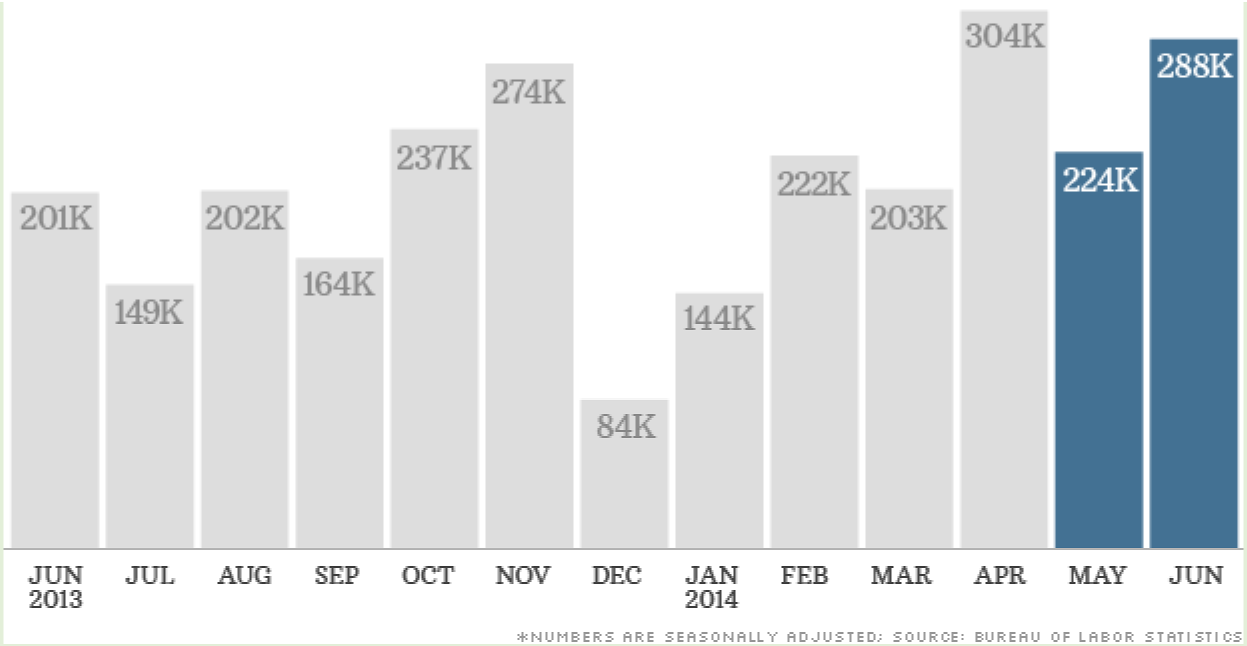
Many individuals remain confused and frightened. Forty-one percent of Americans who are still uninsured say they plan to remain that way. They believe it will be cheaper to pay a penalty than buy insurance. Many of these people are unaware of the subsidies available to them. Sign-ups have been particularly disappointing among Hispanics.

Some of this confusion has been deliberately sown by outside groups that, in the wake of the Supreme Court's Citizen United decision have been free to spend large amounts of money to undermine the law. For example, Gov. Rick Scott, Republican of Florid, erroneously told Fox News that "the Affordable Care Act was the biggest job killer ever" citing a Florida company with 20 employees that expected to go out of business because it couldn't afford coverage, when in fact, THE LAW APPLIES ONLY TO BUSINESSES WITH 50 OR MORE EMPLOYEES WHO WORK MORE THAN 30 HOURS A WEEK. AND MANY COMPANIES WITH FEWER THAN 25 WORKERS STILL DON'T REALIZE THAT IF THEY OFFER PLANS THEY CAN QUALIFY FOR SUBSIDIES IN THE FORM OF TAX CREDITS.

A report issued on May 6th by the Council of Economic Advisors found that since 2010 when the Affordable Health Care Act passed, "Health spending is the lowest on record," and, "Health care price inflation is at its lowest rate in 50 years: the report also said that the law has "substantially improved the long-term federal budget outlook." This is something Democrats should be crowing about coming into the mid-term elections.



GREAT JOBS REPORT: HIRING UP, UNEMPLOYMENT DOWN



The American jobs recovery seems to have finally hit its stride. The U.S. economy added 288,000 jobs in June, the Bureau of Labor Statistics reported. That number beats economists' expectations and comes along with other good news: Job growth was revised higher for both May and April. Taken altogether, that means employers added 1.4 million jobs in the first six months of the year. That's the strongest six months for job growth since 2006.

Meanwhile, the unemployment rate is now 6.1%, down from 6.3% in May. The drop came for the right reasons: more Americans said they had jobs, plus more people joined the labor force. President Obama's administration welcomed the report, but also said more work needs to be done to address stagnant wages and long-term unemployment. As of June, 3 million Americans were unemployed for six months or longer. Hourly wages rose 0.2% and are up 2% in the past 12 months, but that may not be enough to keep up with rising prices.

The White House continues to push for an increase in the federal minimum wage to $10.10 an hour from its current $7.25. A CNN/ORC poll conducted earlier this month shows 71% of Americans support raising the minimum wage. The administration is also asking Congress to pass a transportation bill this summer, which it says will support much-needed construction jobs. The construction sector was one of the hardest hit industries in the Great Recession, and only about 1 in 4 of those jobs have been recovered.

Over the past year, 2.3 million Americans have found jobs. Unemployment is down for many ages and races, although the nation's youngest workers are still struggling this summer. One in 10 workers between the ages 20 to 24 were unemployed while 1 in 5 workers between the ages 16 to 19 couldn't find work. In contrast, the unemployment rate is only 5.1% for workers between the ages 25 to 54, and even lower for workers over age 55, at 4.4%.

Education is still the key for many job seekers. Among workers with bachelor's degrees, only 3.3% are unemployed. For the two thirds of American workers who don't have a college degree though, unemployment is still a lasting problem.

Meanwhile, not all jobs are quality jobs. Whereas many workers reported getting part-time jobs in June, the number of full-time workers declined. As of June, about 7.5 million Americans said they were stuck in part-time jobs even though they would prefer to work full-time.

INVESTORS ARE PUSHING STARTER-HOME PRICES UP

Wall Street is driving up home prices again, but this time it is not granting mortgages to customer who cannot afford house. Instead, institutional investors have been buying relatively inexpensive homes, particularly in areas hard hit by foreclosures during and after the Great Recession.

In the Atlanta area, prices of the least expensive homes have more than doubled since March 2012, when home prices nationwide hit bottom, according to the Standard & Poor's/Case-Shiller indexes of home prices. That is by far the best performance by relatively inexpensive homes in any of the 16 markets for which the S & P/Case-Shiller Indexes break out performance by thirds of the market. Atlanta is also the market in which institutional investors have bee most active, accounting for 14 percent of the homes bought during the most recent eight quarters, according to figures compile by RealtyTrac. Those investors—mostly private equity firms, hedge funds and pension systems—bought the homes to rent out.

"Local investors have been telling us for some time that the institutional investors are pushing up prices, particularly at the foreclosure auctions, beyond what the local investor is willing to pay," said Daren Blomquist, a RealtyTrac vice-president.

"When we look at our data, it's clear that the home price recovery has been largely driven by investors and other cash buyers," he added. "As those investors and cash buyers slow down their purchases, the big question becomes, will demand from owner-occupant buyers be enough to keep the sales and price moving higher?"

The report covered broad metropolitan areas—basically the entire region in which people working in each city might choose to live—and contained only single family homes. There was a strong correlation between overall price levels and institutional involvement. In seven markets, a $200,000 home would be in the middle third rather than the lower third of all homes. Those seven are all among the eight regions where institutional investors have been most active.

In the three California markets that were listed—Los Angeles, San Diego, and San Francisco—the cutoff for homes in the lower third were over $400,000. Those markets had relatively low institutional participation, but low priced homes have done well. Prices are up nearly 50 percent in Los Angels and San Diego (up 46%), and by more than 70 percent in San Francisco.

In each of the 16 areas, the price for less expensive homes rose more rapidly than that of higher priced homes, at least in percentage terms. Of course prices of the upper third may have risen by more dollars, even if the percentage change was not as great.

Lower priced home tended to do worse during the crash partly because they were more likely to face foreclosure. Even with the recent rises, prices in that sector are still lower than the prerecession peaks in each of the markets other than Denver.

RATE SUMMARY

Mortgage rates ticked up slightly, this past month

*Conforming programs - an 1/8th higher ↑

*Jumbos - the 5/1 ARM was unchanged = an 1/8th worse for the 30 yr. Fixed

*Governments - nil change =

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:
www.mortgagestraighttalk.com 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

BEST BUYS THIS MONTH

- CONFORMING 15 YR. FIXED 2.99%
- CONFORMING 5/1 ARM 2.625%
- HIGH BALANCE CONFORMING 30 Yr. FIXED 4.00%
- JUMBO 30 yr. FIXED 3.99%
- JUMBO 5/1 ARM 2.750%
- VA HIGH BALANCE CONF. 30 YR. FIXED 3.50%
- VA CONFORMING 30 YR. FIXED 3.375%
- VA 30 YR. HIGH BAL. CONF. FIXED 3.500%
- FHA/VA CONFORMING 15 YR. FIXED 2.75%
- HOMEPATH 30 YR. FIXED 4.00%

I ALSO DO:

- **COMMERCIAL LOANS (more than 4 units)**
- **"HARD MONEY" LOANS**
- **REVERSE MORTGAGES**
- **FOREIGN NATIONALS**
- **DELAYED FINANCING**
- **STATED INCOME LOANS**
- **MANUFACTURED HOMES**
- **ASSET DEPLETION LOANS**

MORTGAGE MIRTH

The only difference between a rut and a grave is the depth.