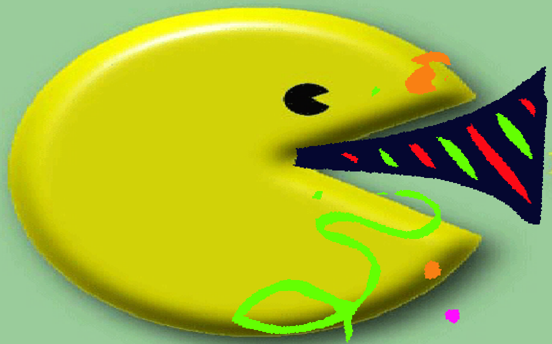
Newsletter - Vol. 7 Issue 1

January 2010



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Please be aware that as of January 1, 2010, new HUD and RESPA regulations go into effect. The changes are significant and have a tremendous impact on the way both lenders and brokers do business. The changes will make processing more onerous and time-consuming. Because both lenders' staffs and processors will be adapting to the new forms and regulatory changes, escrows are apt to be lengthened. Now, more than ever, working with a true professional will be key to a timely closing.

A SEVENTY-TWO MONTH PREGNANCY

There's an adage that goes: "Yard by yard, it's hard, but inch by inch it's a cinch". I've experienced this maxim, first hand, having spent the past 6 years "birthing" my website by contributing one or more articles month to it mostly via the newsletter. As a result, according to our web host, Yahoo Small Business, **Mortgage Straight Talk.com has more content than 99% of all the mortgage websites on the internet.** Consequently, everything (within reason) that you might ever need to know about loans and the loan process is covered there.

Over the years, my sister, one of my biggest boosters and an insightful sales person in her own right, has gently harangued me to not make my newsletters so in-depth. "People don't want to read all that technical stuff," she has told me more than once. I countered that the purpose of the in-depth pieces in the newsletter was not only to educate my readership but to also add content to the website. Another criticism directed at past newsletters was that some of them were too downbeat. Yet, ironically, when I've asked some of these same critics if they anticipated the severity of current financial crisis—or its length—the response has been, "Well, not really." When I asked HOW they would have characterized the greatest financial decline we've experienced since the Great Depression, they allowed that perhaps my comments were appropriate after all.

Because the website is very nearly complete (I have only an article on FSBOs and another on Foreclosures to finish) there will be a sea change in the newsletter this year—it will be shorter and "newsier" in its format. Naturally, I will continue to update and refine the content with the aim of making it more user-friendly. I encourage you to view my "labor of love" at www.mortgagestraighttalk.com Your comments and criticisms would be appreciated.

THE MONTH IN REVIEW

<u>**12/1-12/4**</u> Both the stock market and gold hit record highs, Tuesday, while **mortgage rates** remain **at all-time lows**. The rest of the week the news was all about jobs. According to Automatic Data Processing and Challenger, Gray & Christmas, U.S. **job losses subsided** in November for the fourth month in a row. The government reported that the number of new jobless claims slid to a near 15-month low with unemployment unexpectedly **dropping from 10.2% to 10%.**

<u>**12/7-12/11**</u> Federal Reserve Chairman, **Ben Bernanke,** warned Monday that it is too soon to know whether the economic recovery will last and again pledged to hold interest rates at record-low levels for an "extended period." **Stocks tumbled** Tuesday morning after global markets slumped. **New filings** for unemployment insurance last week climbed 17,000 higher than forecast to 474,000. **Retail sales jumped** 1.3% in November, according to the Commerce Department, more than double the expected increase. In the meantime, **oil fell** to $70/barrel this week.

<u>**12/14-12/18**</u> **President Obama** told top U.S. bankers on Monday that they owed it to the country to help lift the economy out of crisis by lending more money to small businesses in need and embracing financial reforms. The LA Times reports that **home prices and sales improved** in Southern California's housing market in November, a traditionally slow month. Despite showing signs of improvement, a weak economy was cited as the reason the **Federal Reserve** elected, for the foreseeable future to keep the Fed Funds rate between 0-.25%. **The Dow** fell 133 points Thursday in response to the dollar strengthening and a rise in commodities prices. It appears unemployment is falling—at least temporarily, even though the Labor Department reported that **jobless claims rose** by 7,000 higher than expected to 480,000 in the week ending Dec. 12.

<u>**12/21-12/24**</u> **Commercial property values** in the U.S. declined in October to the lowest level in more than seven years as unemployment reduced demand for apartments, offices and

retail space. Prices were down 36 percent from a year earlier and are 44 percent below their peak in October 2007, Moody's Investors Service Inc. said in a statement. The National Association of Realtors said **sales of EXISTING homes** rose 7.4 % in November to an annual rate of 6.54 million units. The gain in existing home sales was driven largely by an $8,000 federal tax credit for first-time home buyers**. NEW home sales** unexpectedly plummeted 11.3% to 355,000 in November compared to the prior month, a Census Bureau report said Wednesday. **Stocks hit new highs** for the year, Thursday. The Dow closed at 10,520, up 53 points.

12/28-12/31 **Home prices flattened** out in November. After four consecutive months of gains, the S&P/Case Shiller Home Price index which covers 20 of the largest metropolitan areas in the nation, was unchanged. Despite the arresting trend, Los Angeles recorded a rise of 0.3% and San Diego prices gained 0.4%. Stocks closed out the year with the **Dow falling 120 points** in a thinly-traded session on the last day of 2009 as investors mulled over jobless claims falling to a 17-month low.

Four more lending casualties were racked up this month.

This brings the running total to **377 mortgage lenders that have "imploded"** since the

beginning of 2007, meaning that they have halted major operations, filed for bankruptcy or become a "fire sale" acquisition of another lender.

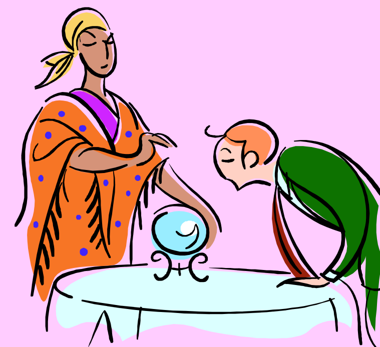
RATE SUMMARY:

Rates JUMPED in the past 30 days:

* Conventional Conforming and High balance Conforming increased by 0.625%.
* Jumbos worsened the least in the range of .1% to .55%
* Governments (FHA & VA) were also up in the range of 0.25% - 0.5%

FOR CURRENT INTEREST RATES FOR 16 OF THE MOST POPULAR PROGRAMS GO TO: www.mortgagestraightTalk.com then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

THIS ISSUE'S TOPIC:
THE ANNUAL FORECAST—2010



Some of you know may know Ben Stein as the brainy television host of "Win Ben Stein's Money". But he is more than that, being a renaissance man of sorts. Among his other claims to fame he's also a lawyer, writer, actor, and an economist with a politically conservative bent. Recently, he wrote a piece for the New York Times in which he posited the following:

1. Economic forecasting is still an extremely difficult gambit and nowhere near a science.

2. Financial market forecasting is even more troublesome than economic forecasting.

3. The amount of lying and deception by the financial sector of this country has been breathtaking.

4. The government has no special abilities to forecast or predict a darned thing.

Given the aforesaid and this being the January issue (in which I try to answer the question on most homeowners' lips, "Where are rates headed? and why? I confess I am a bit conflicted in my forecast this year but, more about that, later.

WHERE WE ARE NOW AND WHY

Before I venture where the economy, the industry and mortgage rates are headed I believe it is important to assess "where we're at" (so to speak) and why. The American Recovery and

Reinvestment Act, a.k.a. the $787 billion Stimulus Plan, has worked just about the way textbook macroeconomics said it would; the bad news is that the same textbook analysis says that the stimulus was far too small given the scale of our economic problems. Most of the economic stimulus spent so far has helped prop up the states, paying for food stamps, Medicaid and filling budget gaps that kept police officers, firefighters and teachers employed. Without the recovery act, the economy would have remained in a state of freefall and likely devolved into a full-scale depression. What the stimulus did was to break the vicious cycle of economic decline as evidenced by late October's Gross Domestic Product (G.D.P.) report showing the economy growing again at 2.2%. For sustained growth to continue, private spending in the private sector needs to pick up and there is no sign that this is happening in a concerted way. Yet, in Congress, one side asserts the stimulus has failed, unemployment is still rising, so we shouldn't do any more. The other, affirms the stimulus has succeeded, G.D.P. is growing, so we needn't do any more. Unless this stalemate is resolved, we're apt to see high unemployment persist.

The current administration has a lot of heavy-lifting to do: it needs to revive a weak economy, reduce unemployment, restore consumer confidence, free up credit, strengthen housing, curtail foreclosures, fix health care, implement a viable energy policy, extract the nation from one armed conflict and prosecute another. It would have been marginally easier, had the previous administration not cut taxes, started two wars, created a new, large Medicare entitlement program (prescription drugs) without paying for any of them.

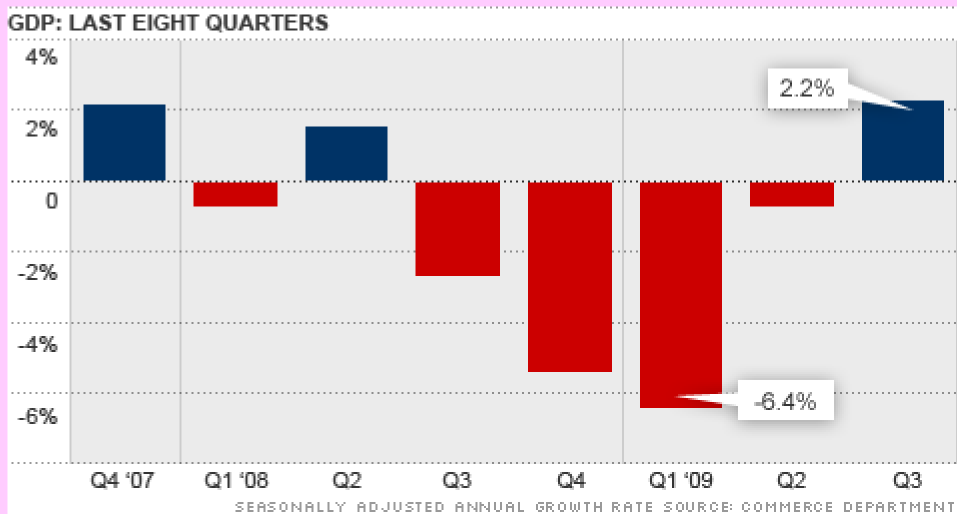
As previously mentioned, the weakness of the recovery is attributable to the inadequate size of the stimulus. Given that we've experienced the greatest economic catastrophe since the Great Depression, it's better to pursue an expansionary monetary policy rather than a tightening of the money supply as occurred in 1936 and 1937 which ushered in the Recession of 1937–1938, sometimes called the Roosevelt Recession. The tepid results produced by Bush's meager stimulus package in the Spring of 2008 underscored another macroeconomic miscalculation. It's unfortunate, that the current administration failed to learn from the mistakes of prior ones. Now, it's politically inexpedient for the Obama administration to go back for 'seconds'.

6 METRICS

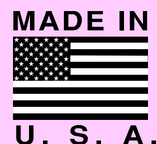
Though the recovery is undoubtedly underway there are plenty of worries about whether the economy could backslide into another period of decline, or a "double dip" recession, early this year. So how can one tell if the economy is headed for another decline? There are six key economic indicators that bear watching. All have shown signs of improvement in recent months. But if they start moving in the wrong direction again, that would be cause for concern.

GROSS DOMESTIC PRODUCT (GDP)

Gross domestic product, the broadest measure of the nation's economic activity, grew at an annual rate of only 2.2% in the three months ending in September. A month ago the estimate was growth of 2.8%, and the initial reading in October was more robust growth of 3.5%. Despite this, a survey by the National Association of Business Economics of 48 top economists found them more optimistic about growth in the fourth quarter of 2009 and throughout 2010. They expect the economy to grow at a 3% annual rate during the last three months of '09. The economists also raised their forecast for growth during every quarter of 2010. They now foresee a 3.2% rise in economic activity over the course of the next four quarters, up from their previous estimate of 3%. But, some worry (myself included) that the economic rebound is merely a byproduct of government spending, not consumer spending. After all, retail sales during the holiday season were not exactly robust. The signs of underlying demand—absent federal stimulus—continue to be pretty soft.

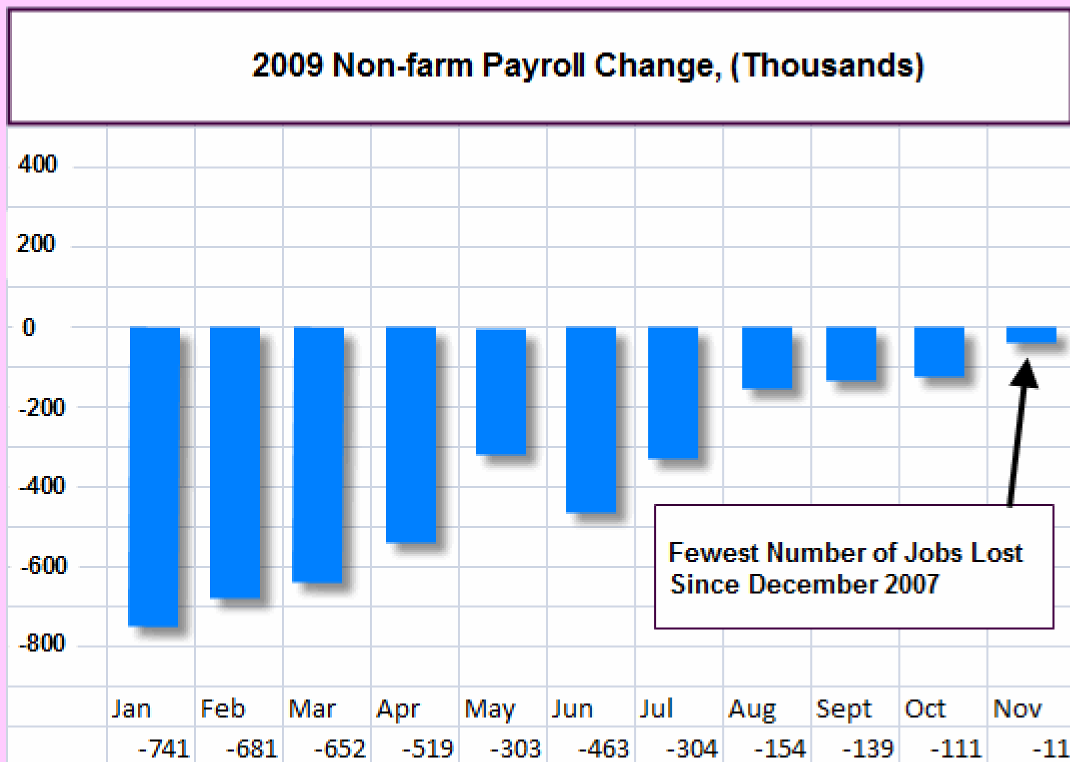


The Fed reports modest gains in manufacturing and the housing market, and that auto sales are picking up. Perhaps, but commercial real estate markets are deteriorating and there is a lackluster demand for loans from small businesses. Other limiting factors are the amount of bad assets that remain on personal and institutional balance sheets. Still, the central bank maintains that fears of a double dip are unfounded. I expect GDP for 2010 to be more around 2%, about half of what would normally represent a solid economic recovery.

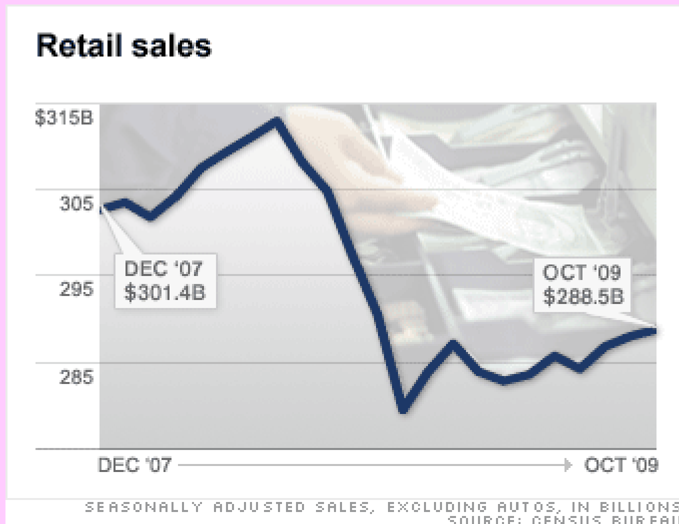


JOB LOSSES

It is estimated that 4-5 million jobs have been lost since the Recession began and job losses have steadily improved since 741,000 lost their jobs in January "09. Unemployment hit a 26-year high in October of 10.2%. But, an unexpected surprise arrived in early December revealing that the economy only shed 11,000 jobs in November and unemployment dipped to 10%. Many economists felt the numbers confirmed that the economy had, indeed, turned a corner and forecast new job growth in early 2010, with the jobless rate diminishing to a range of 9.3 percent to 9.7 percent. Still, others foresee that another 500,000 jobs or more will be lost, which would push the unemployment rate well above 10%, hitting a peak of about 10.5 percent by next summer. Whether the latest job loss figures are anomalous or the continuation of an upward trend, remains to be seen. Both sides allow that the growth in jobs is apt to be lackluster because the overall economy is growing at a rate too modest to support much more. Although the job loss figures are in decline, I don't see the level of consumer spending warranting new hires, at least not yet. Even with a strong recovery, it will take at least five years or more to get the unemployment rate down to a more normal 5 percent. Unemployment is always the last thing to improve.



RETAIL SALES



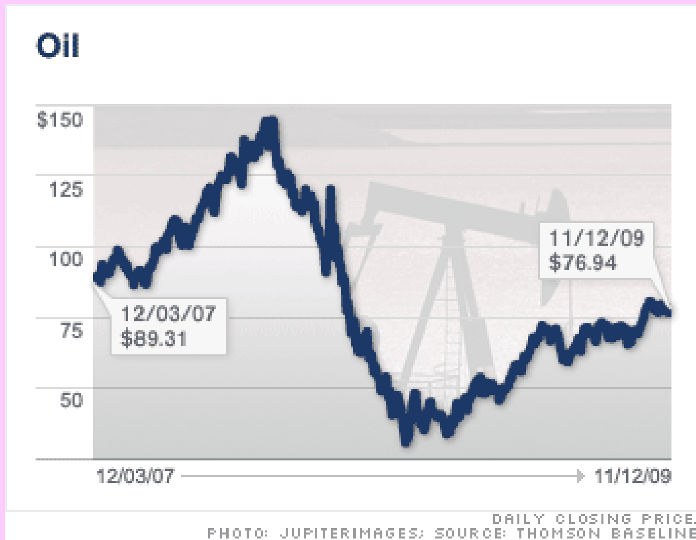
Speaking of consumer spending, it accounts for about 70% of the nation's economic activity, so healthy retail sales are crucial to an economic rebound. Although the government's seasonally adjusted retail sales figures, excluding autos, have risen in five of the last six months, the numbers have moved largely sideways. With tight credit and high unemployment, the National Retail Federation is forecasting that retail sales during the all

important holiday shopping season will have come in a full percent below those of a year ago. The latest figures show that Americans also borrowed less for record tenth month, another sign that consumer spending would remain weak, making it harder for

the economy to mount a sustained rebound. While economists have worried for years about the low rate of savings, the concern is that consumers could derail the recovery if they start saving too much of their incomes. The trend looks to continue and retail sales are expected to lag well into the New Year.

OIL

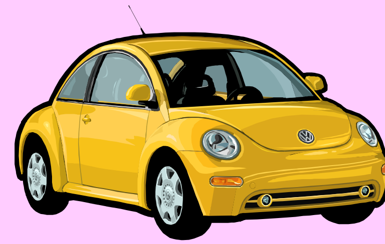
The chaos in the financial markets in the fall of 2008 helped send the economy into its worst period of decline since the Great Depression. But the oil price shock earlier that summer, which sent prices to a record high of more than $145 a barrel, may have had an even bigger impact on consumers. As economic activity slowed around the globe, so did oil consumption, causing prices to plunge.



The one positive byproduct of the recession for many Americans was the subsequent 75% decline in oil prices that occurred between the July 2008 high and January of '09. Oil prices have been rising during the past 6 months though, largely due to expectations that the global recession is at an end. While higher prices are not predicted any time soon, there are forecasts that $100-a-barrel oil could return later this year thanks to stronger demand. Since many consumers have limited ability to cut the amount of gasoline they use, another oil shock would take away money they can spend on other goods and services.

AUTO SALES

Few industries were harder hit by the recession than the auto industry. Auto sales have gotten better in recent months. Sales were essentially flat in October, an encouraging sign since sales were not artificially boosted that month by the government's



Cash for Clunkers program. Automakers ramped up production in the fourth quarter to replenish decreased supplies at dealerships. Most forecasts are for modest improvement in sales across the industry in 2010. But that's dependent on an economic recovery taking hold. If job losses continue to mount and credit stays tight, the industry could be in for another year of weak sales and widespread losses. And that would likely mean more plant closings and layoffs, which in itself would be another blow to the overall economy.

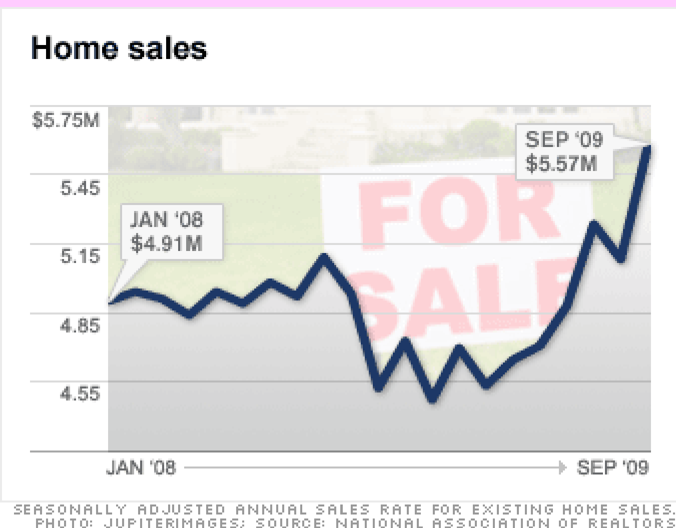
HOME SALES AND MORTGAGE RATES

The housing market is still incredibly weak and many economists are fretting that housing could drag down the tenuous recovery. The relatively strong sales for existing homes in October were driven by foreclosures. New home sales, on the other hand, fell 11%. Low mortgage rates and the first-time home buyer tax credit contributed mightily to home sales, leading some economists to believe that housing has stabilized. But, new figures show home prices flattened in November despite low mortgage rates and the generous tax credit that was meant to spur sales.

Now, rates are starting to rise, making it harder for many buyers to afford a house and although the tax credit has been extended through mid-2010, the urgency that buyers showed this summer, when they believed the credit was about to end, has drained away. The Fed's purchases of bonds and mortgage-backed securities (MBS) this past year lowered mortgage rates to

40-year lows, but it says that program will end by March 31. In response, rates have already crept back above 5 percent as these purchases have begun winding down. [By Wall St. estimates the Fed's purchases of $1.25 Trillion worth of Treasury bonds and government guaranteed securities linked to mortgages pushed down long-term interest rates by about one-half of a percentage point].

But, the Fed's purpose in purchasing bonds and MBS was not about driving down mortgage rates, but about trying to prevent a collapse in the money supply. Outstanding bank credit peaked in October 2008 at $7.3 trillion and is now down to $6.72 trillion. Since the peak in October '08, bank credit has dropped by 8 percent. That is enormous and it is accelerating. The peak-to-trough drop in the early '90s was just 1.3 percent and that was enough to scare the pants off the Fed. The money supply didn't fall in the early 1990s, but it fell by one-quarter during the 1930s. This credit cave-in was the driving force behind the Federal Reserve's mortgage purchase program, the last thing the central bank wanted to see was a decline in the broad-based money supply, because when this happens a depression is imminent. When the Fed buys assets it creates deposits, which, in turn, helps offset the credit pullback. If the Fed wasn't buying mortgages with both hands, the money supply would be presumably still falling 1 percent a month. And, the Fed is effectively the de facto market, since its purchases amount to 80% to 85% of the total. If it goes ahead with its announced phase-out of MBS purchases at the end of Q1 in 2010, it would belie its present policy and this would surely raise rates in the midst of an ongoing credit contraction further destabilizing the housing market. (This is the source of my conflicted feelings as alluded to earlier). The credit contraction looks like it will last for at least another year and if the Fed is interested in offsetting it, they will have to buy assets through next year. Thus, despite what it says it seems inconceivable that the Fed will raise interest rates anytime soon, at least not before the spring of 2011. If it does end its purchase of MBS it will slow the recovery in the housing market and probably the economy.



Apparently banks aren't convinced the slide in home values is anywhere near over. Some analysts predict prices will fall as much as an additional 10 percent. The instability stems from the high rate of delinquencies and foreclosures. At present, there are 3.5 million homes for sale, according to the National Association of Realtors. Of the 52 million homes that have mortgages, almost 10% of home owners are now delinquent on their mortgage payments amounting to 5 million more homes that will likely enter the foreclosure process and be dumped on the market over the next two years, making this 'shadow' inventory nearly 50% larger than the stated inventory. Such a volume of forced selling will likely push down home prices further, causing additional homeowners to experience being upside down on their mortgage. In 2008, 580,000 homeowners defaulted even though they could afford to pay, double the number in 2007, according to Experian, one of the three consumer credit rating bureaus.

The increase in unemployment is affecting a greater number of prime mortgages. Initially, sub-prime mortgages comprised more than 60% of all foreclosures, with prime mortgages only representing around 10%. Now, prime mortgages account for 33% of new foreclosures, and more than sub-prime foreclosures. This figure is going to increase further, since prime fixed rate mortgages were 54% of the homeowners that were more than 3 months behind on their payments, but not yet in foreclosure. Thus, we won't see substantive improvement in the housing market until after unemployment abates.

STOCKS

The stock market is often said to be a 6-9 month leading indicator of the economy, meaning that stocks move higher ahead of any upturn in the economy as investors bet on better times ahead. Since hitting a low in March, the stock market has rallied explosively, recapturing much of the decline sparked by 2008's financial crisis. While stocks are well below their pre-recession levels, there are plenty of market experts who worry that prices have gotten too far ahead of actual improvement in corporate sales and earnings. A market correction is expected and wouldn't raise fears of another recession. But if prices fell 20% from their current levels, it would presage another shock to the financial system that could cause broader problems for a still vulnerable economy.

CONCLUSION

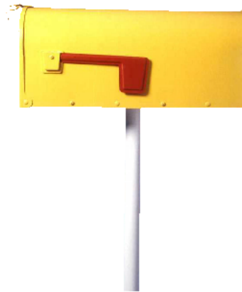
After declining for four straight quarters, the U.S. economy appears to be stabilizing, but so far, the recovery has been tepid. Consumer spending is still shrinking due to on-going job losses and difficult credit conditions. The recovery's bright spots are the growth in GDP and the stock market. The weaknesses are in unemployment, income, and retail sales. Unemployment and amount of non-performing assets that yet remain on institutional balance sheets presage further foreclosures which will adversely impact housing markets and credit. If the Fed curtails its purchases of mortgage-backed securities at the end of

March as it has stated it will, mortgage rates will unavoidably ratchet upward. At the same time, in the face of a weak, prolonged recovery such an action seems untoward. As I said, I'm conflicted.

SPECIAL OF THE MONTH:

The **1/1 JUMBO ARM @ 2.75%** OR the **3/1 ARM @ 3.70%** have the lowest interest rates of any current Jumbo. The **max. CLTV is 75% and max. loan amount, $1,500,000**. **Applies to primary residences only— no 2nd homes.**

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 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

How lawyers do it...

Lawyers do it with appeal.
Lawyers do it confidentially.
Lawyers do it on a trial basis.
Lawyers do it until justice prevails.
Lawyers do it as long as you can pay them.
Lawyers do it unless it is prohibited by law.

If you'd care to share one that you've heard, please email it to me at.... **Rod@mortgagestraightTalk.com**

NEXT ISSUE'S TOPIC: FORECLOSURES