

From: [Andrew Smith](#)  
To: [Sean](#)  
Subject: Weekly Update  
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Sean,

## Hidden Strength in Existing Home Sales

The true measure of the housing market is the demand for Existing Homes. Existing Homes are homes that have been previously owned and are much less volatile than new construction. The National Association of Realtors reported that sales of previously owned homes dropped 7.2% from December to January. Naturally, this is the number that the media ran with. But they also reported that year-over-year sales were up 11.2% which is very strong indeed. In fact, look at the data below - it shows growth in almost every sector:

Regional Sales by Price  
Existing Single Family Homes  
January 2010

% Change in Sales from 1 Year Ago						
Region	\$0-100K	\$100-250K	\$250-500K	\$500-750K	\$750K-1M	\$1M+
Northeast	-4.6%	12.1%	14.3%	35.8%	69.8%	61.2%
Midwest	0.3%	5.3%	2.8%	8.0%	18.3%	31.2%
South	8.4%	2.6%	6.4%	15.7%	33.3%	31.1%
West	-2.1%	3.7%	-1.4%	20.6%	31.8%	52.9%
U.S.	2.6%	4.8%	5.4%	22.3%	40.5%	46.9%

Sales Distribution						
Region	\$0-100K	\$100-250K	\$250-500K	\$500-750K	\$750-1M	\$1M+
U.S.	26.7%	44.5%	20.8%	5.3%	1.3%	1.3%

## The Final Countdown

30 year fixed mortgage rates have been artificially too low for some time. This is due to three major factors: The purchasing of Fannie Mae and Freddie Mac mortgage backed securities by the Federal Reserve, the U.S. recession, and global instability in the financial markets.

The Federal Reserve is near the end of their \$1.25 trillion dollar purchase program of Agency mortgage backed securities. This program will officially end in just 27 business days. They have been slowing down their weekly purchases from \$20 billion to \$11 billion as they stretch out their remaining funds until the end of March. When this purchase

program is done it will remove the single largest weekly purchaser of mortgage backed securities in the market. This removes the artificial demand for a financial product that 12 months ago no one would buy. Since all of our mortgage rates come from the sale of mortgage backed securities, this will push mortgage rates higher.

The second reason why rates have been artificially too low has been the weakness of the U.S. economy. Mortgage rates are extremely sensitive to inflation. And there can be no inflation when the economy is shrinking. However, growth naturally leads to inflation in some measure. The 4th quarter of 2009 grew by 5.9% as measured by our GDP. As our economy continues to recover and grow, it will put pressure on mortgage rates.

The third reason, global instability, will continue for some time and will still provide some level of support for mortgage backed securities. A good example of this is the recent concern of Greece defaulting on their sovereign debt. Concern over this and the domino affect in the European Union has helped to make our Treasuries and mortgage backed securities attractive to foreign investors as a safe-haven.

There is no question that mortgage rates will rise by the end of March. However, this is not necessarily a bad thing. Review the following data:



Housing markets must be allowed to function based upon natural and competing market forces. We have not been operating that way for the past 18 months. Artificially low rates are not good for the housing market because it postpones the natural equilibrium that must occur for market forces to work correctly. The data above is very clear. The top five years that we have ever had in the housing market all had higher 30 year fixed rates that are much higher than recent trends. This means that the ongoing recovery in the housing market will not be slowed by increasing mortgage rates. Mortgage rates increase as the economy grows. As the economy grows, more people are back to work and consumer confidence increases. These are the two greatest factors that impact home buying.

**What Happened to Rates Last Week:**



**Mortgage backed securities (MBS) gained +82 basis points last week which caused 30 year fixed rates to decrease for both government and conventional loans. We had a very short week that was light with economic data so MBS traders reacted strongly to very limited data. We realized our gains primarily on the continued and growing concerns over Greece and the possibility of their default and the rippling affects that this could have on the financial markets. Make sure you call me for the real story on mortgage rate movements.**

**What to Watch Out For This Week:**

**The following are the major economic reports that will hit the market this week. They each have the ability to affect the pricing of Mortgage Backed Securities and therefore, interest rates for Government and Conventional mortgages. I will be watching these reports closely for you and let you know if there are any big surprises:**

Date	ET	Release	For
1-Mar	8:30	Personal Income	Jan
1-Mar	8:30	Personal Spending	Jan
1-Mar	8:30	PCE Prices - Core	Jan
1-Mar	10:00	Construction Spending	Jan
1-Mar	10:00	ISM Index	Feb
2-Mar	14:00	Auto Sales	Feb
2-Mar	14:00	Truck Sales	Feb
3-Mar	7:30	Challenger Job Cuts YoY	Feb
3-Mar	8:15	ADP Employment Change	Feb
3-Mar	10:00	ISM Services	Feb
3-Mar	10:30	Crude Inventories	26-Feb
3-Mar	14:00	Fed's Beige Book	Mar
4-Mar	8:30	Initial Claims	27-Feb
4-Mar	8:30	Continuing Claims	20-Feb
4-Mar	8:30	Productivity-Rev.	Q4
4-Mar	8:30	Unit Labor Costs	Q4
4-Mar	10:00	Factory Orders	Jan
4-Mar	10:00	Pending Home Sales	Jan
5-Mar	8:30	Unemployment Rate	Feb
5-Mar	8:30	Nonfarm Payrolls	Feb
5-Mar	8:30	Hourly Earnings	Feb
5-Mar	8:30	Average Workweek	Feb
5-Mar	15:00	Consumer Credit	Jan

**I know you are busy and it is virtually impossible for you to keep track of what is going on with the economy and other events that can impact the housing and mortgage markets. Just leave it to me, I monitor the live trading of Mortgage Backed Securities which are the only thing government and conventional mortgage rates are based upon.**



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