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Provided to you Exclusively  
By **Foster Weeks**

Foster Weeks  
Mortgage Specialist  
Guarantee Mortgage  
Office: 415-441-5050  
Cell: 415-819-0534  
Toll Free: 888-768-5626  
E-Mail: [fweeks@gmwest.com](mailto:fweeks@gmwest.com)



For the week of Jan 21, 2008 --- Vol. 6, Issue 4

### Last Week in Review ▶

**"WHO ARE YOU? WHO, WHO, WHO, WHO?"** When Pete Townshend and The Who penned this song back in 1978, they probably never imagined that it would come to mind during a Fed Chairman's testimony to the House Budget Committee. But sure enough - one of the Representatives questioning Fed Chair Ben Bernanke actually mistook him for Treasury Secretary Paulson...and apologized by telling Bernanke that she got him "confused with the other one." Great reminder to keep an eye on what our elected officials are telling us during this particularly important year, as they might just have their facts a bit confused.

The financial markets also appear to be a bit confused of late, with some mixed data on the health and future of the economy causing continued volatility in both Stocks and Bonds. **While there was plenty of mid-week action, home loan rates ended just slightly higher for the week overall.**

The Stock market has gotten hammered lower since the beginning of the year, and last week was no exception. But when Stocks move lower, money can flow over into Bonds, helping home loan rates improve. What caused last week's action was a combination of terrible earnings reports from Citigroup and Merrill Lynch; higher inflation numbers indicated in the Consumer Price Index; lower than anticipated Retail Sales; a weak report from the Philadelphia Fed showing a sharp contraction in manufacturing activity; and a Housing Starts and Building Permits report showing the worst levels of starts and permits in about 16 years.

But bear this in mind...the slowdown in new home construction is actually not bad news, as overbuilding has helped to create a glut of inventory in the real estate market. Less inventory coming on the market is actually a real positive as the housing market continues to settle. And with home loan rates at multi-year lows, now may be the time to act on that home purchase or refinance.

**YOU'VE HEARD OF SOCIAL NETWORKING SITES...BUT HAVE YOU HEARD OF SOCIAL LENDING SITES? INSTEAD OF JUST DONATING MONEY, LEARN HOW YOU CAN HELP INDIVIDUALS AND SMALL ENTREPRENEURS ACROSS THE GLOBE...AND MAYBE EVEN TEACH YOUR KIDS A VALUABLE LESSON ALONG THE WAY.**

### Forecast for the Week ▶

After a jam packed economic news calendar last week, the week ahead has very little scheduled economic reports in store, with only Existing Home Sales and Initial Jobless Claims coming on Thursday.

But when the economic calendar slows down, the technical signals can take center stage. Remembering that as Bond prices move higher, home loan rates move lower, the chart below shows how Bond prices have moved higher for the last several months, causing home loan rates to move lower.

Yet notice how Bond prices are hitting an overhead "ceiling"...which may just drive them back lower. **Unless other financial news arrives for the week that helps Bonds move higher - it appears that Bonds may just make a turn lower, causing home loan rates to worsen.**

Chart: Fannie Mae 5.5% Mortgage Bond (Friday Jan 18, 2008)



### The Mortgage Market View... ▶

You've heard of social networking sites like MySpace and FaceBook...but have you heard of social lending sites?

Over the past few years, several websites have sprung up that combine features of the omnipresent social networking sites, and commerce sites like eBay. These sites allow individuals to become either a borrower from or a lender to the online community. The website collects basic financial information from would be borrowers, as well as the intended purpose for the money. The site then posts a short profile of the borrower, so that other members of the community can choose to lend money to them or not.

The very first created was [www.Prosper.com](http://www.Prosper.com), which allows individuals to borrow and lend small amounts of money, for any variety of purposes. Recent posts include families wanting to start a small business and a father seeking to pay off his son's medical bills...you can see their pictures and read their stories. The maximum loan amount is \$25,000 - and lenders can borrow as little as \$50 towards someone's total desired loan amount, and determine what rate they are willing to lend at based on the individuals credit standing and risk profile. Prosper encourages lenders to fund small amounts towards many individuals loans, to help minimize risk of default. Why consider it? Although risk of default is certainly a potential - because these are generally individuals unable to borrow via more traditional methods - it is quite a learning experience, and the rate of return will be higher than via a traditional savings account.

Another similar site is [www.Zopa.com](http://www.Zopa.com) - also a social lending site, but with a few key differences. If a borrower request is approved, Zopa funds it directly, raising funds by offering Certificates of Deposit (CD) to be purchased with attractive rates of return. If you purchase a CD, you are required to choose at least one borrower request to sponsor. By sponsoring a borrower you marginally reduce the interest rate earned on your CD, which in turn is used to reduce the rate that the borrower is paying. Best of all, your money and your rate of return is guaranteed and insured.

Perhaps the most intriguing of the social lending sites, [www.Kiva.org](http://www.Kiva.org) is a blend of charitable giving and online lending. This site specializes in very small loans made to individuals in third world countries. The loans requests and photos are fascinating...who knew that a cow could be purchased for only \$500, or that you could literally

purchase tons of coffee and cocoa for \$1000? The downside to Kiva is that the loan is not repaid with interest, and because it is a loan and not a charitable contribution, it is not tax deductible. But the upside - helping those in developing countries create and expand their businesses, provide for their families and improve their countries economy as a whole - well, this offers a substantial rate of return, just of a different type.

And consider getting your kids involved. Parents can use sites like these to help instill a sense of giving back, as well as a broader view of the economic world. Start with a small amount of money, and let them decide who to lend it to and why. When the loan is repaid, turn around and lend it again. It's never too early to get kids involved in the process of understanding money, lending, and the world around them as a whole.

**The Week's Economic Indicator Calendar ▶**

**Remember, as a general rule, weaker than expected economic data is good for rates, while positive data causes rates to rise.**

**Economic Calendar for the Week of January 21 – January 25**

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Thu. January 24	08:30	Jobless Claims (Initial)	1/19	320K		301K	Moderate
Thu. January 24	10:00	Existing Home Sales	Dec	4.95M		5.00M	Moderate
Thu. January 24	10:30	Crude Inventories	1/19	NA		4259K	Moderate

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**Foster Weeks  
Guarantee Mortgage  
1860 Lombard St  
San Francisco, CA 94123**

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