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For the week of Feb 11, 2008 --- Vol. 6, Issue 7

### Last Week in Review ▶

**"LOOSE LIPS SINK SHIPS." Slogan from World War II** Not just clever words of good advice, this phrase was actually part of the US Office of War Information's attempt to limit the possibility of people inadvertently giving useful information to enemy spies. Now fast forward to present time, as Dallas Fed President Richard "Loose Lips" Fisher's careless comments last week worked to sink the Bond market, **and caused home loan rates to rise about .125%.**

Fisher lived up to his nickname last week, almost uncontrollably blurring out off-topic comments and rhetoric during his speech in Mexico City, and roiling the financial markets every step of the way. Long recognized as an "inflation hawk", he was the lone dissenter against the .50% cut to the Fed Funds Rate on January 30th.

Fisher stated, "Monetary policy acts with a lag. I liken it to a good single malt whiskey or perhaps truly great tequila: It takes time before you feel its full effect. The Fed has to be very careful now to add just the right amount of stimulus to the punchbowl without mixing in the potential to juice up inflation once the effect of the new punch kicks in. ...My dissenting vote last week was simply a difference of opinion about how far and how fast we might re-spike the monetary punchbowl. Given that I had yet to see mitigation in inflation and inflationary expectations from their current high levels...I simply did not feel it was the proper time to support additional monetary accommodation."

The negative outburst by Lose Lips Fisher, which was again a departure from his prepared speech topic, didn't sit well with the Bond market. Bonds hate inflation, as higher inflation erodes the fixed payment return they offer over time. This sparked a sharp sell-off, causing home loan rates to rise.

**AND THE ECONOMIC STIMULUS PLAN IS ALSO ON THE RISE, WITH SOME GREAT BENEFITS IN STORE FOR HOMEOWNERS AND HOMEBUYERS...BUT DO YOU KNOW HOW A BILL LIKE THIS ACTUALLY BECOMES LAW? DON'T MISS THIS WEEK'S INFORMATIVE MORTGAGE MARKET VIEW!**

### Forecast for the Week ▶

This week's economic calendar holds mostly mid-level reports, but the Retail Sales report on Wednesday will definitely draw some attention, as we get a chance to see how consumers have been spending money out there. Additionally, Thursday's Initial Jobless Claims and Balance of Trade reports and Friday's Industrial Production report will also be of interest.

Bond prices had been hanging from a ceiling of resistance, shown in blue on the chart below...almost reminiscent of a Salami hanging in a butcher shop or meat store - and last week saw prices fall off that ceiling, straight down through a floor of support at the 25-day Moving Average. And now - what was a floor becomes a ceiling, and Bonds have not yet been able to recover and climb back above this level.

**The economic news and headlines in the coming week will determine if Bonds are able to drive back higher, through the 25-day Moving Average and help home loan rates improve.** Weak, negative economic

news would be bad news for Stocks, but help money flow over into Bonds and find improvement for home loan rates. Positive, strong economic news will have just the opposite effect though, and cause Bonds and home loan rates to worsen.

**Chart: Fannie Mae 5.5% Mortgage Bond (Friday Feb 08, 2008)**



**The Mortgage Market View... ▶**

**I'M JUST A BILL... AND I'M SITTING HERE ON CAPITAL HILL**

The campaign trail isn't the only place you'll find politicians posing for the media and shaking hands. This week, members of the Senate reached across the aisle to pass an amended version of the \$168 Billion Economic Stimulus Plan, including rebates for taxpayers, tax breaks for businesses, and new conforming limits for home loans. The bill now heads back to the floor of the House for approval of their amendments and then onto the President.

All this back and forth prompts the question... how does a bill actually become a law? The answer is... well... it's a long process. But, we can sum it up in a handful of major steps.

First, a bill is proposed in the House of Representatives and is sent to the appropriate committee for discussion. Next, the committee discusses and amends the bill, and then approves the bill for full House consideration. From there, the bill moves to the full House of Representatives for additional discussion and amendment before a vote is taken. If the House vote passes, the bill is sent to the Senate--where it is discussed, amended, and voted on again.

Of course, it's not over yet. Once the bill passes the full Senate vote, it moves to a conference committee to iron out any differences between the Senate and House versions of the bill. After the conference committee, the bill finally lands on the President's desk, where he (or who are we kidding, maybe she) can sign it into law or veto it.

The bottom line is, it typically takes a long time for a bill to become a law, and there are lots of discussions and amendments along the way. For a more humorous overview of the process that may bring back some

memories, check out the old [School House Rock - How a bill Becomes Law](#).

***And, remember, the new Economic Stimulus Plan--with its new conforming loan limits--will go into law soon. If you've been thinking about refinancing or purchasing a new home, now is an excellent time and you could save big with the limits. Contact me to discuss how these new limits may help you!***

**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 February 11 – February 15**

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Wed. February 13	08:30	Retail Sales	Jan	0.0%		-0.4%	HIGH
Wed. February 13	08:30	Retail Sales ex-auto	Jan	0.2%		-0.4%	HIGH
Wed. February 13	10:30	Crude Inventories	2/09	NA		7052K	Moderate
Thu. February 14	08:30	Jobless Claims (Initial)	2/09	360K		356K	Moderate
Thu. February 14	08:30	Balance of Trade	Dec	-\$61.0B		-\$63.1B	Moderate
Fri. February 15	08:30	Empire State Index	Feb	7.5		9.0	Moderate
Fri. February 15	09:15	Capacity Utilization	Jan	81.5%		81.4%	Moderate
Fri. February 15	09:15	Industrial Production	Jan	0.1%		0.0%	Moderate
Fri. February 15	10:00	Consumer Sentiment Index (UoM)	Feb	76.5		78.4	Moderate

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