


THE MORTGAGE MARKET GUIDE
WEEKLY
Keeping You on the Cutting Edge


Provided to you Exclusively

 By **Foster Weeks**

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For the week of Aug 04, 2008 --- Vol. 6, Issue 32

Last Week in Review ▶

"EVERY DAY YOU MAY MAKE PROGRESS." Winston Churchill. And after recent weeks of progressing in a worsening direction, Bonds and home loan rates finally managed to make some progress in the right direction last week, with home loan rates improving by .125% from where they began.

The biggest newsmaker occurred when President Bush signed into law HR 3221, the "Housing and Economic Recovery Act of 2008," which is a sweeping \$300 Billion rescue plan to help struggling homeowners avoid foreclosure, and to boost confidence in the sluggish housing market. This bill is several hundred pages long, and there have already been hundreds of articles, summaries, and analyses of the bill from the media, many with conflicting and inconsistent data. Rest assured I am deciphering how this law may impact or benefit you, and in the meantime, read the article below for a few notable items from the legislation.

Now remember, negative economic news typically causes money to flow out of Stocks and into Bonds, and several items had that very effect last week, which helped Bonds and home loan rates progress toward improvement. Weak economic data out of Europe, sour comments from Fed President Gary Stern stating that "headwinds to the economy haven't diminished and are possibly getting worse, setting the stage for a lengthy period of weakness like that seen in the early 1990s", and a worse than expected Gross Domestic Product Report - which is the broadest measure of activity in our economy - all worked to give Bonds a boost.

But there was some positive economic news...like lower oil prices and a better than expected Consumer Confidence Report, which helped money flow back into Stocks from Bonds. That stopped Bonds and home loan rates from making any bigger improvements. In addition, while Friday's Jobs Report was better than the expected loss of 75,000 jobs, it still showed that 51,000 jobs were lost in July and that the unemployment rate sits at its highest level in four years. As a result of these negative details, the better than expected Jobs Report didn't cause Bonds and home loan rates to worsen as much as they could have.

HELPING HOMEOWNERS AND HOMEBUYERS IN TODAY'S MARKET IS CERTAINLY PROGRESS IN THE RIGHT DIRECTION! CHECK OUT THIS WEEK'S MORTGAGE MARKET VIEW FOR A FEW INTERESTING PROVISIONS WITHIN THE NEWLY SIGNED HOUSING AND ECONOMIC RECOVERY ACT.

Forecast for the Week ▶

Several news items this week could determine whether Bonds and home loan rates continue to make any improving progress. And the main event will be the Fed's Rate Decision and Policy Statement, due for release on Tuesday afternoon at 2:15pm ET, following their regularly-scheduled meeting. While it is widely believed that the Fed will keep the Fed Funds Rate at 2%, there is speculation that the Fed will hike rates later this year to help fight inflation. A hike in the Fed Funds Rate could actually be good news for Bonds and home loan rates, as it should serve to fight inflation, so I will be reading the statement closely for any hints in direction it may give us.

And with good timing for the Fed's discussions, their favorite gauge of inflation will be released on Monday, via the Core PCE (Personal Consumption Expenditure) Report. Core PCE essentially measures price changes in goods and services targeted toward and consumed by individuals, and the Fed does watch this report closely as a key measure of inflation. Last month's PCE showed a core reading of 2.1%, which is just a whisker higher than the range the Fed likes to see - so this month's data will definitely be under scrutiny.

Remember when Bond prices move higher, home loan rates move lower...and vice versa. And since inflation is the arch enemy of Bonds, it will be important to see what the week's news says about inflation. A jump higher in the Core PCE or a Fed Policy Statement that doesn't contain a strong stance against inflation could prevent Bonds and home loan rates from making further improvements.

Chart: Fannie Mae 6.0% Mortgage Bond (Friday Aug 01, 2008)

Mortgage Bonds moved higher this week but the rally was capped by the 25-day Moving Average.



The Mortgage Market View... ▶

The Housing and Economic Recovery Act

This week, President Bush signed the "Housing and Economic Recovery Act of 2008" into law. This \$300 Billion rescue plan is aimed at helping struggling homeowners avoid foreclosure, as well as boost confidence in the housing market. Although the bill is several hundred pages long and contains a number of far-reaching provisions, here are a few of the major provisions in the legislation that impact homeowners and homebuyers:

1. **Tax credits.** First-time homebuyers who purchase their primary residence on or after April 9, 2008 and before July 1, 2009 are eligible for up to \$7,500 in tax credit, provided they haven't owned a home in the last three years and fit certain income parameters. The credit is generous, but it is actually an interest free loan, paid back over 15 years at \$500 per year when taxes are filed.

Special note: Some types of seller-paid down payment assistance programs are being eliminated as of October 1st as well - so purchasing a home before then may gain you a double benefit of tax credits AND seller-paid down payment assistance while it is still available.

2. Larger loans at lower rates. There have recently been provisions in place that have allowed loans larger than \$417,000 to qualify for better financing rates than normally would be available for "jumbo" loan amounts of that size, thanks to Fannie Mae and Freddie Mac. Although these provisions were set to expire, they are being extended...however, the top end of the loan size that will be allowed under these programs will be dropping down from \$729,750 to \$625,500 as of January 1, 2009.

3. FHA Hope for Homeowners. This provision is designed to help homeowners who are "upside down" on their mortgages--that is, they owe more on their house than they can sell it for in today's market. Essentially, this plan allows homeowners who meet the requirements and are upside down to refinance their mortgage to a new 30-year Fixed FHA mortgage. There are a number of qualifying details that must be met and requirements to be agreed to -- including agreeing to split the equity in your home with the government in the future. Still, if you're upside down on your mortgage and struggling in today's economy, this is an option worth exploring in more detail.

These are just a few of the provisions that may benefit you, and there are a number of other items that impact the housing and mortgage industry as whole. But the bottom line is, home prices are extremely reasonable right now, home loan rates are low, and new incentives are in place that may help make the decision to buy even more appealing than before. If you're in the market for a new home or need to make some changes with your current mortgage...there's never been a better time to act. Just get in touch so we can start the planning process together.

If you have any questions or concerns regarding the new legislation and how it may impact you, please call or email to schedule a time to talk.

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 August 04 – August 08

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon. August 04	08:30	Personal Income	Jun	-0.1%	0.1%	1.8%	Moderate
Mon. August 04	08:30	Personal Spending	Jun	0.5%	0.6%	0.8%	Moderate
Mon. August 04	08:30	Personal Consumption Expenditures and Core PCE	Jun	0.3%	0.3%	0.1%	HIGH
Mon. August 04	08:30	Personal Consumption Expenditures and Core PCE	YOY	NA	2.3%	2.1%	HIGH
Tue. August 05	10:00	ISM Services Index	Jul	48.0		48.2	Moderate
Tue. August 05	02:15	FOMC Meeting					HIGH
Wed. August 06	10:30	Crude Inventories	8/02	NA		-81K	Moderate
Thu. August 07	08:30	Jobless Claims (Initial)	8/02	NA		448K	Moderate

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As your trusted advisor, I am sending you the **MMG WEEKLY** because I am committed to keeping you updated on the economic events that impact interest rates and how they may affect you.

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