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 THE MORTGAGE MARKET GUIDE

WEEKLY

Keeping You on the Cutting Edge



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



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Last Week in Review ▶

"THOSE WHO CAN SOAR TO THE HIGHEST HEIGHTS CAN ALSO PLUNGE TO THE DEEPEST DEPTHS." Lucy Maud Montgomery. Despite all of the government's efforts, markets here and around the world plunged this week as the financial crisis continues to grow.

On Tuesday, the Fed and Treasury Department announced plans to purchase short-term commercial paper that many companies rely on to finance their day-to-day operations, to help businesses with their short-term credit and funding needs. The government hoped this announcement would help ease uncertainty, restore confidence, and give Stocks a boost. They hoped for a similar result on Wednesday when the Federal Reserve cut the Fed Funds Rate by 50 basis points, and coordinated an emergency global interest rate cut with the European Central Bank, Canada, the UK, Switzerland and Sweden. The Central Banks in Asia followed suit and cut their benchmark interest rates overnight as well.

However, on Thursday, Stocks plummeted nearly 700 points to a five-year low, and on Friday Stocks ended the day another 126 points lower (after plunging 500 points three times throughout the day). Bonds and home loan rates also worsened sharply in the second part of the week, as Bonds dropped below several important floors of support, and home loan rates ended the week .50% higher than where they began.

From a historical perspective, we are in the midst of a brutal bear market that began on October 9th 2007. Remember that a decline of 20% constitutes a bear market...and a 10% decline is a "correction." The last bear market occurred between March 24th of 2000 and October 9th 2002 saw a 49% drop. Overall,

the average bear market lasts for 12.3 months, with the average decline being 32%. The current bear market is right in line with the average historical time frames, and the extent of the decline is worse than previous bear market averages, but still slightly better than the bottom made in 2002. So the historical data might suggest that we could be nearing a bottom. I will continue to monitor this situation closely, and let you know how this will impact home loan rates in the weeks and months ahead. One bright spot is that oil prices are also plunging, falling from a high of \$147 per barrel last July to around \$80 per barrel Friday morning...which at least makes a trip to fill up at the gas station slightly less painful.

PLUNGING PORTFOLIOS ARE SOMETHING WE NEVER WANT TO SEE HAPPEN, AND NEITHER ARE PLUNGING SAVINGS ACCOUNTS. CHECK OUT THIS WEEK'S MORTGAGE MARKET VIEW FOR SOME GREAT TIPS ON STAYING WITHIN YOUR BUDGET!

Forecast for the Week ▶

Last week was a volatile one despite the lack of scheduled economic reports, and this week several big pending reports could add to the volatility...even with the markets being closed on Monday in observance of Columbus Day. Wednesday will bring the wholesale inflation measuring Producer Price Index and the Retail Sales report for September. The Retail Sales report is a measure of the total receipts of retail stores, and changes in these numbers are closely followed as a timely indicator of broad consumer spending patterns. It will be especially important to see what kind of impact the financial crisis has had on recent spending trends.

More inflation news will follow on Thursday, as September's Consumer Price Index (CPI) report, which gives a read on inflation at the consumer level, will be released. CPI tells us how much more expensive goods and services are this month over last month, and this widely watched inflation indicator will definitely make headlines. And given what's been happening in the markets, it will be important to note what's happening in the housing sector, which Friday's Housing Starts and Building Permits Report for September will reveal.

Remember when Bond prices move higher, home loan rates move lower...and vice versa. As you can see in the chart below, Bonds and home loan rates worsened this week, due to a variety of factors. I will be watching closely to see if Bonds and home loan rates can change direction.

Chart: Fannie Mae 5.5% Mortgage Bond (Friday Oct 10, 2008)

Mortgage Bond pricing worsened this week, and moved beneath an important technical floor of support at the 200-Day Moving Average.



[The Mortgage Market View...](#) ▶

STOP OVERSPENDING TO STAY ON BUDGET

In today's economic environment, many people are paying more attention to their monthly budgets than they have in a long time. One of the best ways to rein in your budget is to get a handle on your spending habits. The tips below can help you figure out where your money is going every month, and whittle down unnecessary expenses.

Taking inventory. Many people can name their major expenses, but don't remember all the little expenses that drain their wallets. To help you get a true picture of your spending, try writing down everything you spend money on during the course of a month. That means writing down not only your major expenses, but also those quick trips to the gas station, grocery store, coffee shop, movie theater, fast food restaurants, and so on. Also, if you pay for insurance or your garbage bill on a quarterly basis, write down what the monthly expense equals.

Hierarchy of needs. Once you have all your expenses listed, it's time to analyze them. The best place to start is by grouping your expenses using highlighters. For example, you may want to use one color to highlight "must haves" like your house, automobile, life insurance, utility payments and so on. Next, use a different color to highlight items that may be important occasionally, but aren't required--such as, new clothes for work. Finally, use a different color to highlight unnecessary expenses that are nice, but could easily be cut out, such as mochas from the local coffee house. Now, you can make some purposeful decisions about what you can cut--starting with the easy items and working your way up to the important but not necessary. Don't forget, it's not always "either-or." For instance, you don't have to cut out mochas altogether; instead, you can cut down to one per week as a special treat.

Give yourself an allowance. Sticking to your budget is easier if you have no other option. If you have a real spending problem, you may want to give yourself an allowance to live on. For example, try taking out \$50 or \$70 in cash for each week and putting your credit cards and checkbook in a safe place. That way, when you spend money, you'll actually see it leave your wallet...which means you'll see the impact more dramatically. This forces you to make some tough decisions. After all, if you go to lunch on Wednesday, you may not be able to go to the movies on Friday night. It'll be tough at first. But soon, being frugal will be second nature.

Stop window-shopping. Marketing is a powerful force. To help eliminate the urge to overspend, avoid filling your lunch hour or Saturday afternoons by walking around the mall. Instead, spend that time walking around a local park, reading a good book, or playing a board game with a good friend. When you do need to shop, make a plan to go to a specific store or two... and go with a list! Of course, the key to having a list is only shopping for the items on it--no more, no less.

Pedal to the metal. Make a list of all the places you drive and how far away they are. Then, get out your highlighters again. Use one color to highlight the items that are within 3 miles. These are the places that you can start walking to... that way you'll save on gas and get some exercise in the process. Use a different color to highlight all the places that range from 3-10 miles. Those are the places you can start biking to. Of course, if you want to save even more, you can get rid of your car or a second vehicle altogether. Not only will you save on gas, but you'll also free yourself from those ongoing car insurance and license expenses. If you live in a city with public transportation or where most of your stores are close by, this may also be an option worth exploring.

[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 October 13 – October 17

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Wed. October 15	08:30	Core Producer Price Index (PPI)	Sept	0.2%		0.2%	Moderate
Wed. October 15	08:30	Producer Price Index (PPI)	Sept	-0.3%		-0.9%	Moderate
Wed. October 15	08:30	Empire State Index	Oct	-10.0%		-7.4%	Moderate
Wed. October 15	08:30	Retail Sales	Sept	-0.4%		-0.3%	HIGH
Wed. October 15	08:30	Retail Sales ex-auto	Sept	0.1%		-0.7%	HIGH
Wed. October 15	02:00	Beige Book					Moderate
Thu. October 16	08:30	Jobless Claims (Initial)	10/11	NA		497K	Moderate
Thu. October 16	08:30	Consumer Price Index (CPI)	Sept	0.1%		-0.1%	HIGH
Thu. October 16	08:30	Core Consumer Price Index (CPI)	Sept	0.2%		0.2%	HIGH
Thu. October 16	09:15	Capacity Utilization	Sept	78.0%		78.7%	Moderate
Thu. October 16	09:15	Industrial Production	Sept	-0.8%		-1.1%	Moderate
Thu. October 16	10:00	Philadelphia Fed Index	Oct	-5.0		3.8	HIGH
Fri. October 17	08:30	Building Permits	Sept	845K		854K	Moderate
Fri. October 17	08:30	Housing Starts	Sept	880K		895K	Moderate
Fri. October 17	10:00	Consumer Sentiment Index (UoM)	Oct	69.0		70.3	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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Foster Weeks
Guarantee Mortgage
1860 Lombard St
San Francisco, CA 94123

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