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For the week of Nov 24, 2008 --- Vol. 6, Issue 48

### Last Week in Review ▶

**"THE IMPORTANT THING IN THIS WORLD IS NOT SO MUCH WHERE WE STAND, AS IN WHAT DIRECTION WE ARE MOVING."** Oliver Wendell Holmes. And when it comes to the direction our economy may be moving, there was some surprising news from the Fed last week that the "Minutes" from their October meeting revealed.

After years of being concerned about inflation, the Fed is now concerned about deflation. So what exactly is deflation? Deflation is when prices drop, which generally is due to lack of demand, and therefore lack of pricing power. With the economy slowing down, we are hearing economists forecast that we may be in for a deflationary recession. In a deflationary environment, investors flee into fixed instruments like Bonds, because the fixed payment received would actually buy them more goods and services over time as prices decline.

So what does this mean for home loan rates? Remember, home loan rates improve as Bond pricing moves higher - and more demand for Bonds would mean higher prices for Bonds. In the spring of 2003, when Alan Greenspan uttered the "D" word, deflation, Bonds rallied 400bp in just a few weeks, bringing a significant drop in home loan rates. Of course, the economy is different right now, but as more money may be headed towards Bonds in a deflationary environment, we could again see a significant improvement in home loan rates down the road.

On the inflation front, last week's Producer Price Index indicated that wholesale inflation plummeted last month - by the most since records began in 1947 - largely due to declines in energy prices. In addition, the Consumer Price Index showed that inflation at the consumer level fell by a record 1.0%, thanks again to lower costs of energy.

When it comes to the direction the economy is heading, the week did end with some hopeful news. Federal Reserve President Jeffrey Lacker said that an economic recovery could begin in 2009 as low interest rates, low energy prices, and less drag from the housing sector may shore up spending. In the meantime, Bonds and home loan rates spent much of last week trading near a key level of technical support called the 200-Day Moving Average, finally moving and staying above this level on Friday. **As a result, Bonds and home loan rates ended the week unchanged to slightly better than where they began.**

**WHEN IT COMES TO CREDIT SCORES, IT'S MORE IMPORTANT THAN EVER TO DO ALL YOU CAN TO KEEP YOUR SCORE MOVING IN THE RIGHT DIRECTION! CHECK OUT THIS WEEK'S MORTGAGE MARKET VIEW FOR HOLIDAY SHOPPING TIPS THAT WILL HELP KEEP YOUR CREDIT SCORE ON THE UP AND UP.**

### Forecast for the Week ▶

It will be a holiday shortened week in the markets as Thanksgiving is celebrated, but there are several important reports that could determine which direction Bonds and home loan rates move. On Tuesday, the Gross Domestic Product (GDP) Report will be released, and on Wednesday we will get the details on the Fed's

favorite gauge of inflation, the Core Personal Consumption Expenditure (PCE) data, from the Personal Income report. Given the Fed's recent talk of deflation, it will be important to see what these reports reveal.

Also on Wednesday, we'll get a read on consumer and business consumption and buying behavior from the Durable Goods Report. Durable goods are items that are non-disposable, like cars, furniture, appliances, games, cameras, business equipment, etc. In addition, we'll get a read on the housing market with Monday's Existing Home Sales Report and Wednesday's New Home Sales Report.

Stocks hit some important technical support last week, and bounced higher on Friday, with the rally being boosted by the appointment of incoming Treasury Secretary Timothy Geitner. **Some follow through to the upside in Stocks could pull money out of Bonds and cause some short term worsening of home loan rates...but if deflation starts grabbing more headlines, smart money will be headed towards Bonds, which will help home loan rates improve.**

Keep an eye out for words from SEC Chairman Chris Cox, who must comment on some potential easing to "mark-to-market" accounting before January 2nd. If there is indeed some easing in mark-to-market accounting - which accelerated the financial crisis - it could set off a significant...perhaps very significant...rally in Stocks, which may temporarily hurt Bonds and home loan rates.

The Bond market will be closed on Thursday in honor of Thanksgiving, and will also be closing early at 2:00pm ET on both Wednesday and Friday. I wish you and your family a very happy Thanksgiving!

**Chart: Fannie Mae 6.0% Mortgage Bond (Friday Nov 21, 2008)**



[The Mortgage Market View... ▶](#)

### Save on Your Credit Score this Holiday Season

With the economy slowing and holidays just around the corner, many consumers may be looking to credit cards to help them get through the heavy shopping season. While that may be a good short-term solution, you want to make sure you don't overlook the long-term impact on your credit rating. After all, the actions you take today could hang over your head for years to come--and may make it tough for you to get the home loan or car loan you want in the future.

To help you make sure you manage your credit cards--and your credit score--during the upcoming holiday

spending season, follow these steps:

**Double-check your card limits.** Many credit card companies today have started lowering credit limits. That means you have less credit available, but it also may mean that your credit score is about to take a hit. That's because approximately 30% of your credit score is based on the amount you owe in relation to your available credit. So, if a credit card company cuts back your limit, you may find that you're suddenly almost maxed out. That's not a good sign for your long-term credit score rating.

**Ask, pay down, or move around.** If some of your credit limits have changed or are nearly maxed out, you can take a few steps to help alleviate the problem. First, consider simply asking for a higher limit to your card...not necessarily to use up with spending, but to allow more unused credit line to be available and therefore boost your credit score. You can also pay more money to the cards that are near the credit limit, if you can. Or, if you have cards with little to no remaining credit line, transfer some of the larger balances onto the cards with lower balances. That'll give you a more... well... balanced financial picture.

**Leave home without it.** One of the best tips for the holiday season is to: make a budget, identify specific items, and then leave home without your credit card. Instead, bring just enough cash to purchase the items on your list. That will help you resist the urge to impulse buy, and keep your credit card balances lower.

**Pick a card... not just any card.** If you can't bring cash, make a credit card plan. Identify specific items that you'll pay for on specific cards. By making a plan and spreading your purchases to different cards, you won't overspend and you won't risk running up one or two cards that are near the credit limit, which will hurt your credit rating.

**Resist card offers at the counter.** Retailers are famous for offering "savings" when you open a credit card. But those savings often don't outweigh the long- and short-term negatives. For one thing, opening a new account--or multiple accounts in a short period of time--can negatively impact your credit score. In addition, consumers often spend more than planned when a new card is suddenly available. So this holiday season, resist the temptation.

**Stay active.** If you have older cards that you don't use, make sure you keep them active. For one thing, some of those older cards help establish a longer history of positive credit. For another, the available credit on those older cards can help keep your credit score higher because it improves your overall debt-to-credit ratio. To keep those cards active, make sure you charge one or two items on them throughout the year... like, say, when you go shopping for the holidays. Then, pay them off when the bill comes in.

**Always pay on time.** Your payment record is a very large part of your credit score, so it's crucial that you have an idea how your holiday shopping will impact your credit card bills and that you make a plan to pay those bills on time. If you have trouble for any reason, contact your card companies right away to work out a plan that helps you pay down your debt... and save your credit rating from a huge hit.

**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 November 24 – November 28**

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon. November 24	10:00	Existing Home Sales	Oct	5.05M	4.98M	5.14M	Moderate
Tue. November 25	08:30	GDP Chain Deflator	Q3	4.2%		4.2%	Moderate
Tue. November 25	08:30	Gross Domestic Product (GDP)	Q3	-0.6%		-0.3%	Moderate
Tue. November							

25	10:00	Consumer Confidence	Nov	39.5	38.0	Moderate
Wed. November 26	08:30	Personal Consumption Expenditures and Core PCE	YOY	NA	2.2%	HIGH
Wed. November 26	08:30	Personal Consumption Expenditures and Core PCE	Oct	NA	0.2%	HIGH
Wed. November 26	08:30	Personal Spending	Oct	-0.7%	-0.3%	Moderate
Wed. November 26	08:30	Personal Income	Oct	0.1%	0.2%	Moderate
Wed. November 26	08:30	Jobless Claims (Initial)	11/22	NA	542K	Moderate
Wed. November 26	08:30	Durable Goods Orders	Oct	-2.5%	0.8%	Moderate
Wed. November 26	09:45	Chicago PMI	Nov	38.5	27.8	Moderate
Wed. November 26	10:00	Consumer Sentiment Index (UoM)	Nov	58.0	57.9	Moderate
Wed. November 26	10:00	New Home Sales	Oct	450K	464K	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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