



MORTGAGE MATTERS...

Week of July 26, 2010

Keeping up-to-date on market fluctuations allows you to bring greater value to your clients.

Market Comment

Housing was the lead story for most of last week. Unfortunately, what was reported wasn't particularly encouraging. For instance, homebuilders turned even more pessimistic in July, as measured by the National Association of Home Builders/Wells Fargo confidence index, which dropped to 14 – a low unseen since April 2009.

We understand why homebuilders are feeling a little blue these days: home construction dropped 5 percent to a 549,000-unit annual pace in June, matching a nine-month low. Driving the decline was a more-than 20-percent drop in the volatile condominium and apartment market. Meanwhile, construction of single-family homes, the biggest component of the overall market, dropped 0.7 percent. Building permit applications were the one bright spot, rising 2.1 percent to an annual rate of 586,000 units.

Homebuilders don't operate in a vacuum: factors that influence their market influence the existing-home market in similar proportion, so we weren't surprised that resales fell 5.1 percent in June to a seasonally adjusted annual rate of 5.37 million units. According to Lawrence Yun, NAR chief economist, things could get worse before they get better. Yun sees supply rising above 10 months (it's currently at 8.9 months), possibly pressur-

ing prices, which so far have remained stable: the median sales price has risen 1 percent in the past year to \$183,700.

As we've noted several times in the past, a sales drop was expected. The housing market is now like a wobbly toddler taking his first unaided steps, but at least he's walking. From here on, only improving fundamentals – job growth, income growth, and home prices – will enable the recovery to hit full stride.

Job growth is of particular importance, and all eyes will be focused on this critical variable for the remainder of the year. We still expect some improvement, just not as much as we expected back in January. Federal Reserve Chairman Ben Bernanke warned a congressional panel this past week that it will take "a significant amount of time" to restore the almost 8.5 million jobs lost in 2008 and 2009.

As long as job growth continues to troll the bottom, so, too, will mortgage rates. We still advise borrowers not to wait, though. Low rates don't automatically translate into lower-cost loans. It's worth noting that the latest financial regulation reform bill will impose additional costs on lenders – costs that will have to be passed through to borrowers. Before it's all sorted and everyone figures out what costs what, we suggest that borrowers get the loan process started now instead of waiting for the final tally later.

Economic	Release	Consensus	Analysis
New Home Sales (June)	Mon., July 26, 10:00 am, et	320,000 (Annualized)	Important. Sales have hit historical lows, but some improvement is expected.
S&P/Case-Shiller Home Price Index	Tues., July 27, 9:00 am, et	None	Moderately Important. Prices will likely show a post-tax-credit dip.
Consumer Confidence (July)	Tues., July 27, 10:00 am, et	52.8 Index	Moderately Important. A recent spike in economic uncertainty is weighing on confidence.
Mortgage Applications	Wed., July 28, 7:00 am, et	None	Important. Markets will want to see continued improvement in purchase activity.
Federal Reserve Beige Book	Wed., July 28, 2:00 pm, et	None	Moderately Important. The Fed will likely extend its outlook for a low interest-rate environment.
Gross Domestic Product	Fri., July 30, 8:30 am, et	3% (Annualized Growth)	Important. Heightened economic uncertainty could drop GDP below the consensus estimate.
Employment Cost Index	Fri., July 30, 8:30 am, et	0.5% (Increase)	Important. Rising benefit costs could impede job growth.

Clarity and Confirmation

It's been said that markets disdain uncertainty. Unfortunately, we're saddled with a lot of uncertainty these days, according to the newly launched Economic Security Index, which examines three key security variables: income loss, medical expenses, and debt. The inaugural edition shows that insecurity has risen to its highest level in 25 years.

Because the index is new, it hasn't been officially critiqued, so we can't say if it imparts any meaningful information or is just another compilation of alarmist gobbledeygook. We don't think the index is telling us anything we don't already know. Through

our own observations, we see heightened uncertainty, mostly due to implemented and proposed changes in regulation, taxes, business mandates, and fiscal policy.

But there's a silver lining to this cloudy perception: opportunity. When everything is jumbled, like it is today, the best opportunities avail themselves, because so few people are willing to seize the movement. Things eventually get worked out and recoveries always occur (though we don't always recognize them). In fact, recoveries are often marked by an influx of negative news and misery indicators, such as the aforementioned Economic Security Index, which, when we think about it, could be a contrary measure, portending more glee than gloom.

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Corporate Headquarters / 2204 Lakeshore Drive / Suite 325 / Birmingham, AL 35209
www.synovusmortgage.com



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