



MORTGAGE MATTERS...

Week of April 11, 2011

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

Market Comment

Are delinquency and foreclosure rates really falling? Based on this past week's data releases, it appears they are.

Hope Now, an alliance of mortgage servicers and home-retention counselors, reports that the number of loans classified 60 or more days delinquent fell to 2.78 million mortgages in February from 2.95 million in January. Freddie Mac reports that less than 4 percent of its single-family home loans are at least three payments behind or heading into foreclosure, which is less than half the year-ago rate.

Two more government agencies – the Office of the Comptroller of Currency and the Office of Thrift Supervision – offer more proof that delinquencies and foreclosures are on the mend. They report that the percentage of mortgages classified as seriously delinquent fell in all four quarters of 2010, while seriously delinquent mortgages at the end of the year dropped to a level unseen since the second quarter of 2009.

The detractors remain unconvinced: they counter that last year's moratorium on foreclosures has skewed the numbers, and that delinquencies and foreclosures are set to rise. Even the OCC and OTS say that they expect foreclosure activity to increase in 2011 as moratoriums thaw.

That could very well be the case, but we think there is more at work here than just a thawing of moratoriums. Payroll employment and economic growth have posted strong gains over the past few months. That means more people are able and willing to service their obligations, including mortgage obligations.

Pricing could be the wild card in the delinquency-foreclosure trend. Admittedly, the news on national home prices has been weak over the past couple months. However, real estate is local. Home prices in West Virginia are up over 5 percent year-over-year, and they're up over 4 percent in New York and North Dakota. The usual suspects – Arizona, Florida, Michigan – have posted double-digit declines. That said, Arizona and Florida were two of the most overbuilt states; Michigan is one of the most economically depressed. They're not representative of most real estate markets.

Therefore, we will stick by our guns: stable and improving prices will prevail. We are encouraged by the sharp decline in the rental vacancy rate, to 6.2 percent in the first quarter of 2011, which suggests to us that excess supply is being absorbed. In fact, the vacancy rate is back to early 2008 levels, and is not far above the rate in 2006 (around 5.7 percent). As the vacancy rate falls, rents will rise and this will help support home prices.

| Economic Indicator | Release Date and Time | Consensus Estimate | Analysis |
|--------------------------------|-------------------------------|---|--|
| International Trade (February) | Tues., April 12, 8:30 am, et | \$43.5 Billion (Deficit) | Moderately Important. Rising energy prices has pushed the deficit higher in recent months. |
| Import Prices (March) | Tues., April 12, 8:30 am, et | 2.0% (Increase) | Important. Food and energy are responsible for most of the increase. |
| Mortgage Applications | Wed., April 13, 7:00 am, et | None | Important. Purchase applications hit a 12-month high, portending an improving sales outlook. |
| Retail Sales (March) | Wed., April 13, 8:30 am, et | 0.4% (Increase) | Important. Sales are flattening, but remain up overall on rising price inflation. |
| Producer Price Index (March) | Thurs., April 14, 8:30 am, et | All Goods: 0.7% (Increase) Core: 0.2% (Increase) | Important. Producers are showing less willingness to absorb higher energy costs. |
| Consumer Price Index (March) | Fri., April 15, 8:30 am, et | All Goods: 0.4% (Increase) Core: 0.2% (Increase) | Very Important. Prices rising at the current rate will pressure interest rates to go higher. |

The Wise Words of Ludwig von Mises

Who in the world is Ludwig von Mises? He was an Austrian economist who was known for his contrarian views on how markets and people work. Mises had many insightful views on business. Here's one: "It is not correct foresight as such that yields profits, but foresight better than that of the rest. The prize goes only to the dissenters, who do not let themselves be misled by the errors accepted by the multitude."

Long-time readers will recognize a Misesian theme in some of our writings. For the past year, we've been counseling people to act, and not to wait until all signs point up, because when everything looks positive (or when everything looks negative), the multitude is in control.

We argue that today a "multitude" of negativity still pervades the market, making it a buyer's market. (We could have said there was a "multitude" of positivity in 2006, which made it a seller's market.) The problem is, it's difficult to stand against the multitude, even though it's often in our best interest to do so. Most people simply find it too uncomfortable to separate themselves from the crowd and look past today's problems to today's opportunities.

Fortunately, to be a successful dissenter, we only have to be mostly correct, not completely. We feel mostly correct in saying that buying real estate at today's prices and at today's rates will prove very profitable a few years from now.

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



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