

# The Wednesday Wrap

by Bill Fisher

February, 2008

## KEY RATES

- ↗ 30-YEAR TREASURY BOND  
4.31% [- 14 bps] [2/1/08]
- ↗ 10-YEAR TREASURY NOTE  
3.59% [- 44 bps] [2/1/08]
- ↗ 1-YEAR TREASURY SECURITY  
2.31% [- 111 bps] weekly  
[12/31/07]
- ↗ 6-MONTH LIBOR  
4.825 [-] [2/1/08]
- ↗ 11TH DIST. COST OF FUNDS  
4.072 [-] [for use in Feb 2008]
- ↗ MORTGAGE RATES (HSH)  
6.08% [- 57 bps] 30-yr fixed  
5.53% [- 60 bps] 15-yr fixed  
5.33% [- 40 bps] 1-yr adjustable  
[2/1/08]
- ↗ FED FUNDS TARGET RATE  
3% [-] [since 1/30/08]  
next FOMC meeting 13/18/08
- ↗ PRIME RATE  
4.25% [+] [since 1/30/08]
- ↗ WEEKLY MBA MORTGAGE  
APPLICATIONS SURVEY  
1054.9 [+!] [week ending 1/25/08]
- ↗ CONVENTIONAL LOAN  
LIMITS FOR 2008

**These are very likely to rise through the end of 2008.**

\$417,000 – Single-family residence  
\$533,850 – 2-family residence  
\$645,300 – 3-family residence  
\$801,950 – 4-family residence

VA – up to \$417,000 (with no money down)

FHA - \$362,790 (high-cost areas);  
\$200,160 (low-cost areas)

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## COMMENTARY

[written February 4, 2008]

**Within...**

- \***Lower Mortgage Rates**
- \***Higher Loan Ceilings**

Let's look first at interest rates. It's my experience that, with so much attention in the media focused on how terrible the real estate market is (and how it's supposed to stay that way for at least another year), few people are really aware of what is happening to interest rates. And believe me, most of your clients *should* know. This is actionable information, to say the least.

***The cut-to-the-chase view: Rates have come down remarkably. The average 30-year fixed-rate has fallen by about 60 basis points or more in the past two months.***

(Let's be as clear as possible about this. We rely on the HSH Assoc. computation of the **average** mortgage rate at any particular time. This rate will always be lower than, say, the *bankrate.com* quote for the best available rate—and we stay with the HSH because the average rate is ultimately more relevant. The best available rate only applies to the best possible borrowers, and your clients may experience confusion and anger if they are assuming they can run down to their friendly neighborhood lender

and get the rate quoted by *bankrate.com*. Okay, with that caveat, we return to our story....)

With interest rates down by, in some cases, nearly three quarters of a percent, it becomes an extremely good time to consider refinancing out of an existing home mortgage that you're uncomfortable with...or to consider completing the purchase of a home that is right for you and attractively priced.

*Why are interest rates lower?*  
Primarily because the financial world is very concerned that the U.S. may already be wading into a recession. The Federal Reserve is showing a willingness to take fairly radical action to try averting a deep recession, meaning that the Fed (or its policy arm, the Federal Open Market Committee—FOMC) is reducing the fed funds rate in unusually large increments.

Since last August, the Fed has cut the fed funds rate by 2.25%. Within nine days, 1.75% was cut away from the rate. This kind of heavy metal cutting hasn't been seen since the early 1980s, when the Fed started to urge interest rates down from the then-treacherous heights.

*What it communicates is:* The Fed is very concerned about the risks of a potentially severe recession, and the Fed wants us to know that it is concerned. It has a certain amount of fed funds interest rate reduction to "spend," in a manner of speaking, and it is showing itself willing to "front-load" that spending.

There is a danger in this, of course. What if the Fed runs out of possible interest rate cuts? It can then only sit by and watch the economy continue to weaken. On the other hand, striking now and striking hard could prove to be the most effective thing it can do.

What is relatively crucial here is that the Fed, based on these apparent facts, is unlikely to raise the fed funds rate any time soon. And that means we should see lower interest rates for some time into the future. We **should**—but only time will tell.

*Can we therefore rely on rates to fall further?* Here we stumble upon one of today's conundrums (to borrow one of former Fed Chairman Alan Greenspan's fancy words).

Interest rates are pressured down primarily because the Fed and the financial markets want to keep money available to businesses and consumers who need to borrow. It keeps the economy flush with money, so to speak.

This creates a wonderful opportunity for those who were formerly unable to arrange workable (and affordable) refinancing—especially those whose loans' monthly payments may soon be adjusted radically higher—to refinance into now-affordable loans. And, judging by the numbers we'll look at in a moment, a tremendous number of homeowners are taking the opportunity to do that refinancing.

Ay, and there's the rub, Hamlet. With so many people trying to put together a refinancing, the interest rates on refinancing loans face a bit of upward pressure...meaning that we can't entirely count on those interest rates to go lower, or even to stay at today's very attractive levels.

Were I a betting man (and, face it, anyone who tries to analyze interest rates is by definition a betting man), I would currently say that the worries about the overall economy outweigh the effects of the huge demand for refinancing loans and we are likely, at the the

least, to see rates bounce around near their current position.

(The bouncing, by the way, can be unnerving. Yesterday's opportunity to lock in a 5.25% rate may evaporate today, leaving you able to find nothing better than a 5.5% rate. The best idea, in such conditions, is to work with a seasoned mortgage rep you feel you can communicate with well. *Ask her or him to give you a detailed education regarding lock-ins.*)

*And how huge is that demand for refinancing loans?* The figures for refi applications (from the weekly MBA Mortgage Applications Survey) showed applications in the week ending January 25 up a stunning 215% from where they were four weeks ago, when they were last declining, and up 163% from where they stood a year ago. (Some few analysts have argued that this isn't all that significant, because it doesn't necessarily indicate that people are gaining spendable cash from the refis. I argue that it's *tremendously* significant, because the economy can only benefit as people get out from under precarious loan obligations. Further—bottom line—it's significant because more individual homeowners can refinance out of very trying circumstances.)

It should be noted that applications for new purchase money mortgages have not risen nearly as dynamically. By way of comparison, they're up 11.3% year-over-year and are roughly unchanged from four weeks ago. It is too early for a rush back into buying homes, clearly—though there is increasing anecdotal evidence that people are beginning to pay a bit more attention to the well-priced homes out there. Remember—lower interest rates reduce the effective cost of purchasing a home, often

making a well-priced home into a rather irresistible bargain.

But again—a question hovers in the air: *Should we wait until interest rates have gone as low as they will go?*

What can we say? It's your choice. But I've tried to indicate some of the reasons you can't assume rates will decline much further.

#### **AND THERE IS ANOTHER HUGE CONSIDERATION:**

**We almost certainly will be able to work with higher ceilings for conforming loans in higher-priced areas.** For the remainder of this year, at least.

Slipped into the economic stimulus package is a relatively short-term boost to the highest allowable conforming loan (which can be purchased by Fannie Mae and Freddie Mac and therefore has some of the best available terms). The max should go from \$417,000 to \$729,750.

**But note well: *This new maximum allowable loan will expire at the end of 2008.***

Precisely what will happen then remains to be seen. If Congress is disinclined to act on the matter, we'll probably simply resume the annual loan ceiling adjustment as if the max had stayed at \$417,000.

Hopefully, though, this little aspect of the stimulus program will stir a strong discussion about what to do with loan ceilings in the future.

*Bear with me for a moment.* This has long been a proverbial bone of contention in our nation—and unfortunately, our policy on the matter rests in the hands of politicians. A Congressman from Mississippi is very unlikely to be worried about whether the people of California can finance the purchase of their—to him—

absurdly overpriced homes with conforming loans. To his mind, and to the minds of many other politicians, people in higher-priced areas shouldn't allow their home prices to get as high as they do.

Now, it does seem to be true that—as I have argued several times—prices will go as high as they can when demand is high, within the limits of what the most probable buyers can afford to pay. And maybe we can join the legislators in other regions of the nation in wondering if we might be able to restrain the rate of price appreciation by keeping the loan ceiling moderately low. *Maybe.*

I am convinced, though, that we tend to run into trouble when we introduce artificial means of directing where and how high or low prices can go...and not just in real estate. It just doesn't work. Instead of promoting a more orderly and affordable real estate market, it ends up urging the market toward questionable loan programs, no-doc loans, etc.

My inclination is to get out of the way of the market itself, but to regulate the kinds of loans being written—and how they are written—a little more carefully. (Why, I wonder, hasn't a blue ribbon panel of actual mortgage experts been created to examine this? Why are the rules being tweaked by Barney Frank's committee and the Fed? And what are we waiting for?)

I know there are vehement arguments against this opinion, but I'll run it up the flagpole anyway. If we want to assist lower-to-middle-income homebuyers with conforming loan programs, and to leave higher-income buyers to shift among jumbo loan programs, that's one thing. But ***if we want a truly efficient mortgage market, wouldn't it be better to focus on how likely a loan is to be repaid***

***rather than on how big or small it is?*** Better with a careful revision of loan origination procedures than with a restriction of how much money can be borrowed and by whom? Isn't this as much a matter of writing good loans—for borrower and lender—as it is a matter of implementing our national housing policy or someone's idea of how much we should be able to pay for a home?

I admit to hoping that a sober discussion of the housing market in the coming year will respect the fact that it is, indeed, a market, and that steps will be taken to make it an even more efficient and free market than it has ever managed to be.

Just had to say those things. I climb gladly off the soap box now to look at one of the bottom lines to this discussion.

#### **WHAT SHOULD REAL ESTATE AND MORTGAGE PROFESSIONALS DO IN LIGHT OF THESE MARKET CHANGES?**

*Get the word out. Counsel people. Teach people. Let people know how best to take advantage of lower rates and higher ceilings.*

Send letters to your clients and to your potential clients. Send out newsletters on these subjects. Give people as clear an idea as possible of what these changes could mean to them.

And here's a superb idea, currently being used by many real estate and mortgage professionals.

***Develop a workshop***—a one-timer or, better, a one-time workshop that can be extended so that it becomes a class that meets once or twice a month.

Perhaps the best approach is for a real estate professional to team up with a mortgage professional.

Create a program that lasts about an hour or an hour and a half, with a break in the middle during which time you can talk informally to people, answering questions they were a bit shy about asking in the larger group.

The workshop should be fairly tightly organized, should cover market conditions and important issues like how to get the best mortgage today, how to buy a home at the best price, how to make sure you find the financing that will serve you in the future, and not explode in your face. You should leave plenty of room for people to ask questions. (One of the great benefits of teaming with a mortgage professional if you're a real estate professional, and vice versa, is that each of you can field questions and both of you can provide answers from the viewpoint of your own field.

You can give out a sheet that people can use to indicate they'd like an individual appointment with one or both of you. (Just make sure you have nothing that makes people feel like they're being pressured or manipulated. Don't ask them to fill in blanks that require them to give you too much information. That can come later as trust develops. *I mean, it's obvious you're doing this to improve your business and you don't have to pretend otherwise; but if you allow people to remain in their comfort zones, the results will be much better.*

Notice that by providing a genuine service with these workshops, you impress on people that **service** is what you're about. You don't have to tell them this. They experience it, and call on you whenever they need help with real-estate-related matters.

Ideally, this workshop will become something that people attend more than once and bring their specific

questions to. You should make clear that they are extremely welcome to do so.

*One more time: Make sure people don't feel like they're being hustled in any way.* That's like trying to gain children's trust and then showing them how sharp your teeth are.

Lastly, you will learn by doing. Don't be afraid to tell people you're not sure of the best answer to certain questions, but that you'll do the research and either get back with the answer to the person who asked the question or send out the answer in your newsletter or discuss the answer in the next workshop.

*Which brings one more item to mind: **You should, if you have one, promote your own newsletter by providing a sign-up sheet at the workshops.***

*You are working your way here toward becoming an institution—unlike anyone else in local real estate or mortgage.* So that when people think of real estate issues, they think of you. Simple as that. You're different—a cut above, as the saying goes—a provider of unexcelled service, a professional without any real competition out there.

## WHERE IS THE MARKET NOW?

I believe we are at the very, very early edge of recovery. The market is unlikely to improve quickly, but people are just beginning to entertain the idea that they might buy a home at some point within the next year or two.

It is, I think, the best time possible to be reframing the way you do business, creating a real estate service unlike any that has yet been seen—one that doesn't differentiate itself by discounting its prices and its services, but that

streamlines and enlivens the way the business is done, dropping the truly outmoded and unnecessary business practices, taking on the newer high-tech possibilities, making sure that every aspect of the service provided is deeply human and even exciting. And all at a price that either meets or beats current fees and commissions.

It's time now to create this, whether it is just you doing business in relatively new and more streamlined ways, or you creating a group or team that fulfills the promises of the team concept. *Get it together and get it working* so that you will be totally up and running as the market's strength begins at last to catch up with you.

Do not allow yourself to be defeated by all the hype about what a dreadful market we're experiencing. Sure—it can be pretty tough. But you'll probably never have as good an opportunity to make this marketplace your own. Make 2008 the year of utter renewal!

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