

Mortgage Brief

June 27, 2011

Last Week: What a long, strange trip it has been -- and we're only talking about the last five days for the equity market. Once again, things were volatile, only this week it wasn't due entirely to Greece.

What's Ahead: This week brings us the release of four economic reports for the markets to digest, with three of them being considered important. One of those three is one of the more important reports we see each month. There is relevant data or events scheduled for each day except Thursday, so it will likely be another active week for mortgage rates.

Also worth noting is the fact that the Fed will be selling more debt this week. These sales may influence trading enough to affect mortgage rates, especially since the most important one is on a day with no relevant economic data. There are sales every day except Friday but the two most likely to affect rates are Tuesday's 5-year Note sale and Wednesday's 7-year Note auction. If they are met with a strong demand, we could see bond prices rise during afternoon trading. This could lead to afternoon improvements to mortgage rates also. But, if the sales draw a lackluster interest from investors, mortgage rates may move higher during afternoon trading those days.

Overall, tomorrow and Tuesday's data should bring some volatility in trading and mortgage rates, but Friday's ISM report is definitely the most important of the week. Next Monday is when the Independence Day holiday will be recognized. There is no early close for the bond market Friday ahead of it, but it will probably be a light afternoon in trading as traders head home for the long weekend. This could lead to additional volatility during morning trading, particularly if the ISM report shows a surprise.

Sales of New Homes Slip 2.1% in May

Sales of new homes fell to a seasonally-adjusted annual rate of 319,000 in May, a pace that was higher than the MarketWatch-compiled economist estimate of a 310,000 rate and also 13.5% above May 2010 levels.

April figures were modestly revised higher to a 326,000 rate from an initially reported 324,000 rate.

The Northeast had a disastrous month, with sales down 26.7%, but the largest region for new homes, the South, saw a 2.4% increase. The Midwest was stable while the West saw a 3.5% dip.

The new-home sales data is notoriously volatile, with a plus or minus 10.7% margin of error, but May's data fits within the range of 278,000 to 331,000 seen over the past year.

Sales have been very gradually trending higher, with the second quarter average about 8% above the "very depressed" first quarter, said Daniel Silver of J.P. Morgan. The U.S. home construction exchange-traded fund was down modestly Thursday morning, compared to a steep drop in the broader stock market.

Taking a broader view, the market for new homes is still in the doldrums. As the U.S. entered recession in December 2007, the new-home sales rate was 641,000, and the peak of activity was back in July 2005 when 1.39 million new homes were snapped up.

Rates at a Glance

30 Year Conf Fixed
4.375% .50 point

5/1 Conforming ARM
2.750% .75 point

30 Yr High Balance Fixed
4.375% .75 point

30 Year Fixed FHA
4.250% 0 point

5/1 FHA ARM
3.250% .25 point

30 Yr High Balance FHA
4.250% .50 point

30 Year Jumbo Fixed
4.625% 1 point

5 Year Jumbo ARM
3.000% 1 point

VA 30 Year Fixed
4.250% 0 point

Important Markets

DOW Jones Industrial	
Start of week	12004.36
End of week	11934.38
Change	(69.98)
NASDAQ	
Start of week	2616.48
End of week	2652.89
Change	36.41
30-Year Bond	
Last week	4.20
This week	4.18
1 Yr T-Bill	0.140%
Prime Rate	3.250%
11 th Dist COF	1.359%
6 Mo. LIBOR	0.397%



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